

ROYAL COMMISSION ON INDIAN FINANCE AND CURRENCY.

MINUTES OF EVIDENCE

TAKEN BEFORE THE

ROYAL COMMISSION

ON

**INDIAN FINANCE AND
CURRENCY**

VOLUME I.

Presented to both Houses of Parliament by Command of His Majesty.



L O N D O N :

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1913.

[Cd. 7069.]

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MINUTES OF EVIDENCE
TAKEN BEFORE THE
ROYAL COMMISSION
ON
INDIAN FINANCE AND CURRENCY.

FIRST DAY.

At the India Office, Whitehall, S.W.

Tuesday, 27th May 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.

Lord KILBRACKEN, G.C.B.

Sir ROBERT CHALMERS, K.C.B.

Sir ERNEST CABLE.

Sir SHAPURJI BURJORJI BROACHA.

Sir JAMES BEGBIE.

Mr. ROBERT WOODBURN GILLAN, C.S.I.

Mr. HENRY NEVILLE GLADSTONE.

Mr. JOHN MAYNARD KEYNES.

Mr. BASIL P. BLACKETT (*Secretary*).

MR. LIONEL ABRAHAMS, C.B., called and examined.

1. (*Chairman*.) You are Assistant Under-Secretary of State for India?—Yes.

2. Will you please tell me what your official experience has been?—I entered the India Office in 1893, and joined the Financial Department in 1894. In 1898 to 1899 I was the Assistant Secretary of the Herschell Committee; I mention that because that was when I became specially connected with the currency question. Then in 1902 I was made Financial Secretary, and held that post until 1911, in which period, of course, I had a great deal to do with these financial and currency questions. In 1911 I was moved to my present post, in which in a somewhat undefined way I lend a hand in dealing with financial questions; so that my financial experience goes from 1894 until now in various capacities.

3. I understand that you are prepared to give evidence as to the practice and policy in financial matters of the India Office?—Yes.

4. And especially under the first three heads of the Commission's Reference; that is to say, the location and management of the general balances of the Government of India; the sale of exchange bills and transfers; and the methods adopted since 1899 for the maintenance of the exchange value of the rupee, with particular reference to the gold standard and paper currency reserves?—I have handed in, and no doubt you have read, a note on the balances, which also deals with the sale of council bills and transfers; and then I have handed in one about the gold standard reserve. I was not proposing to deal with the paper currency reserve, because Mr. Newmarch was going to hand in, or perhaps has done so—I am not quite sure—a note on that subject. I have put in another of no very great importance about the proposals for the establishment of a gold mint in India. I dare say the secretary has circulated that to you. It occurred to me also that if the Commission desired it I might perhaps go through the history of the proposals for a central bank. One's India Office experience rather helps one to see what are the conditions which would apparently have to be satisfied if such a bank was to be well-established. Of course, if the Commission

asked for anything of that sort I have no doubt that Lord Crewe would authorise me to put in something.

5. Thank you. I think we will begin, at any rate, with the questions concerning the general balances of the Government of India and the sale of council bills and transfers. I have before me copies of the two memoranda (*see* Appendices I. and II.) which you supplied dealing with those subjects, the first containing the explanatory memoranda, and the second containing copies of extracts, &c., from papers referred to in those memoranda and statements and tables illustrative of them. Those memoranda may be considered as part of your evidence?—Yes. I gave the secretary some slight corrections of those memoranda which I dare say he has given to members.

6. They shall be embodied in it?—They are very trivial.

7. In Statement B (Appendix II., pp. 74–5), you give figures showing the distribution between India and England of the total balances on March 31st in each year from 1893 to 1913, together with the estimated figures for March 31st, 1914; that is so, is it not?—Yes, that is so.

8. And in Statement A (Appendix II., pp. 67–73), you supply figures showing the receipts and disbursements in India and England for each year from 1907–8 onwards under certain heads, and so you work up from the closing balance at the end of 1906–7 to the estimated closing balance at the end of 1913–4?—Yes, that is so.

9. Will you go through the various heads of receipts and disbursements so that the Commission may get a clear understanding of the composition of the balances? Take, first, the receipts. The first head is "Revenue." That, I think, is simple. The second is "Capital received from Railway Companies." Will you explain to us what that is?—Yes. The greater part of the Indian railway system is worked by guaranteed companies, companies which have the interest on their capital guaranteed by the Secretary of State; and as part of that system they pay in all their receipts to the Government, whether for capital or for revenue, and they draw from the Government all that they require, whether for capital expenditure or for working expenses. This item No. 2

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[Continued.]

upon which you have questioned me is one of the items which come into the Government account in consequence of that system, that is to say, the railway companies from time to time would make an issue, say, of guaranteed debenture stock or something of that sort, such as, I dare say, you have noticed has recently been made, and then they pay it in to the Secretary of State, and in a very similar way payments of that kind are made into Government treasuries in India. I mention the English transactions because they are more familiar to me, but they are all of the same kind.

10. That is capital raised for and held for the Indian railway companies until they require it?—What usually happens is a little different. An Indian railway company will go on year by year spending money which it has not raised; I mean the Secretary of State will advance it, and will get interest or a share of the profits in respect of his advances. Then every now and then he will say to a railway company, "I want you to pay me back two million pounds of my 'advances.' You see, that would be the alternative to issuing a loan for two million pounds.

11. Then do I understand that at that point two million pounds of fresh capital is raised in the market for the company?—It is raised by the company.

12. And paid to the Indian Government?—Yes, to the Secretary of State.

13. Then the third head of receipts is, "Loans issued for the requirements of the current year"—2 and 3a in a sense go together. The Secretary of State has continually to issue loans, not, as you will readily understand, to fill up deficits in his revenue accounts, but in order to meet the capital expenditure which he is continually incurring. Very occasionally he has to borrow in order to fill up a revenue deficit, but that is very exceptional indeed. These loans which are set down here are loans practically in all cases for capital purposes. You will notice that in preparing the statement I have divided the loans into 3 and 3a, because in some cases the Secretary of State, say in February or March of a particular year, borrows in advance for the requirements of the following year. He would be influenced by his expectation of the state of the market and so on.

14. I think that answers the question I was going to ask you as to what rule is followed in fixing the total amount to be raised by loan in any one year?—I think one would hardly say that it was a rule. I would rather put it in this way. At a suitable time each year, about the autumn or the winter, the Indian Government, like the British Government, begins to prepare its budget. Of course, the expected revenue receipts and revenue expenditure follow to a great extent on facts which are not within the control of the Government, except, of course, when taxation is to be altered; but it also has—and this, perhaps, is a little unfamiliar to those who are only accustomed to British Government finance—to adopt a railway programme; that is, to decide that so much, say 10 millions, 12 millions, 13 millions, or whatever it may be, shall be devoted to capital expenditure on railways and so much to capital expenditure on irrigation works. Then one works out a budget, not merely a revenue budget, but what you may call a ways and means budget, in which you reckon that of this total capital expenditure so much can be met, say, from savings bank receipts, so much can be met from accumulated balances, and so on. Then, having made your calculations as best you can—and naturally in conditions of some uncertainty, because you do not know what next year is going to bring forth—you then say, or, rather, the Secretary of State then says, "In order to make both ends meet and to end up with a suitable closing balance we must borrow so much." It is a matter, as one may say, of general common sense to decide how to borrow it, except that I might mention this, which I think is important in some ways, that the general principle recognised is that the Government of India borrow as much as they can in India for the purpose of this capital expenditure, and then the balance, great or small, has to be found by the Secretary of State in England. I think as you go

on you will see that this fact that the Secretary of State is in a sense the residuary legatee in this matter is a very important fact.

15. I think I understand why, but I should prefer to ask you: Why do the Government of India make it a practice to borrow as much as they can in India?—In former years, I think, Secretaries of State held the view much more than they do now that there were two advantages: First of all, everyone is familiar with the general political advantage of a country holding its own debt, and not having too much external debt. Then, from the seventies to the nineties, the Indian Government authorities were afraid, and properly afraid, of doing anything that would add to the burden of the home remittances. You see, if you go on borrowing several millions a year in England it means that you have to remit so much more from India to England to pay the interest. The exchange question in the period I mentioned was a very serious question, and the India Office tried to reduce as much as possible the burden of those home remittances. Now the same principle of the Government of India borrowing as much as they can in India is still held to, but I should say for entirely different reasons, namely, that, as is a matter of notoriety, year by year it has in recent times been becoming more difficult to issue loans on favourable terms in England; and that, I think, is the main justification at present, although, of course, the old reasons have some validity, not so much as they had, I should say.

16. When you say that the Government of India would borrow as much as they could in India for those reasons, I presume that means at the same rate of interest, or substantially on the same terms?—Yes. One often has to use those phrases. I suppose that if they paid a very much higher rate of interest they could borrow a great deal more, but the governing consideration, I take it, in all these matters is that you ought not to borrow in such a way as violently and suddenly to depreciate the position of your stock.

17. To go back to the receipts again, the fourth item is "Unfunded debt." Have you anything to say about that?—All I have to say is that unless one is accustomed to Indian accounts one would not understand it. It simply means the savings bank receipts. It does not mean what you would mean in the Treasury, short-dated bills, or anything of that sort. It means savings bank balances, and a few deposits of funds which, as it were, bank with the Secretary of State.

18. Does it mean the total of those funds for the moment, or the receipts in the year under review?—The net receipts in the year.

19. Then "Miscellaneous remittances" is the next item?—There is No. 5, "Deposits and advances."

20. Yes; will you tell us what the deposits and advances are?—I thought you would probably ask about that, and therefore I noted down some items which go to make it up. In the business of a government there are a great many payments and receipts which are neither properly revenue nor properly capital, and you have to have some miscellaneous sections of your accounts in which to deal with them. I have copied out from one particular year the various items which make up "Deposits and advances." Would you like me to read the chief ones?

21. Just read the principal items to give us a rough idea of what it means?—In India by far the biggest is the departmental and judicial deposits. There are large receipts and large payments. They fairly well balance one another, but the total on both sides is very large. Then the transactions, with which I think you will become more familiar later, between the Government Treasuries and the Paper Currency Department are brought to account in this particular section. Then there is a practice in India by which the Government makes advances on a large scale to native states, municipalities, cultivators, and so on, and all that comes in this section. Of course, on the one side you have the payments, and on the other side you have the repayments. Then, also, the Government acts as the banker of a great many district boards. It receives their money and pays out money to them; district boards are something like county councils; it is a rough analogy. That is the kind of item which is

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[Continued.]

entered here, and perhaps for your purpose what I have said is enough; but I could, if you cared, submit a fuller statement.

22. I think that is sufficient for our purpose. Then No. 6 is: "Miscellaneous Remittances." I only want a very short indication of what it is?—There are, for example, money order transactions which naturally come to a very large sum, both in India and international money orders. Then when we buy silver for the Government of India and send it out to India the cost is entered under "Remittances."

23. The last heading is "Council bills and transfers." I think we will leave that for the moment. Now on the expenditure side the item "Expenditure chargeable to revenue," I think, needs no explanation?—No.

24. I observe that, roughly, twenty millions has to be met in England. Is that a fairly normal sum?—I should say that it is gradually increasing. You see, in each year we should ordinarily issue a loan for several millions, and there is a gradual increase in interest charges on that account. Occasionally one effects an economy in some head of the administration, but it does not count very much against these large increases of interest. It may interest you to know that about 30 years hence there will be a very great decrease, because a great number of terminable annuities will come to an end.

25. In the meantime there is a tendency to a steady but not very large increase in any one year?—That is so.

26. Then as regards the remaining heads, have you anything to say about them—"Capital outlay," for instance?—No. You will notice, as you go through the statements, that the budget estimate of capital outlay is not worked up to as a rule, and that is a cause of a good many things upon which, I imagine, you will be questioning me. I now draw your attention to it merely. Then also you will notice that the figures about "Discharge of debt" in certain years are very heavy. Very large amounts of debt have been discharged, but I do not think there is anything noteworthy in the other items.

27. Is the sum allocated to the repayment of a debt a fixed charge?—No. There is a peculiar system with a rather long history attached to it. There is an arrangement under which ordinarily about half a million pounds taken from revenue are used, not to repay debt, because, of course, any borrowing government does not ordinarily do well to repay debt—that question has been discussed from the time of Mr. Pitt to the present day—but there is an arrangement under which half a million pounds are used from revenue for the avoidance of debt; that is to say, spent on the railways instead of money being provided by the issue of loans. When we discharge debt it is usually because the debt is of a special nature which it is desirable to discharge. Except in small amounts, and under statutory provision, we should not pay off our permanent debt at all; but we have, from time to time, very large amounts of temporary debt, India bills, corresponding to Treasury bills, and so on, and the desirability of paying off those lest they mature at a very inconvenient moment is, of course, clear. That is the sort of debt that we have been paying off for some years, and which we have almost cleared out of existence.

28. If there is an unexpected surplus of revenue at the end of the year, it does not automatically go to the payment of debt as it does in this country?—No; that is a very important point, and I am glad you put the question to me at this early stage. I mentioned the discussions which began the 18th century and have gone on intermittently ever since, as to whether a government which borrows ought at the same time to pay off debt. The practice that we have followed, and I may say there can be little doubt that it is the right practice, is that except when you are dealing with special kinds of debt such as I have mentioned you should use your surplus primarily to reduce the amount of new debt which you incur, not to incur a larger amount of new debt and then use your surplus to pay off so much existing debt.

29. I think that examination of the accounts shows us how the balances are arrived at. Now we come to the question of their location. The first part of your memorandum shows the distribution of the balances between England and India on March 31, 1913, and Statement B gives the distribution for each year after 1907, I think?—Statement B in Appendix II., pp. 74-5, gives it for a longer period; it begins earlier; if you will notice, in your copy it is 1893.

30. It is from 1893 onwards?—Yes.

31. I understand that the balances in India are divided between the district treasuries, branches of the Presidency banks, the head offices of those banks, and reserve treasuries?—Yes.

32. Will you tell me briefly what is the reason for this arrangement?—Yes. The particulars, I think, are given in the second collection of papers.

33. It is Statement C in Appendix II. on page 76?—Yes. I think perhaps the most natural order is to begin with the district treasuries and the branches of Presidency banks, which are in column 3. I should like to say here that I do not speak from first-hand knowledge, and I dare say that Mr. Gillan will be able to supplement a good deal of what I say if you ask him. The revenue in India is collected to a very great extent up-country, and it comes in the first place to a district treasury, which would be under the management of a government officer. Then in that district treasury they would naturally keep such sums as would be required, or are estimated to be required, to meet the disbursements at that place, because India being a big undeveloped country, it is necessary in country districts to keep your money where you want it. I mean you could not rely on being able to get it from other places just at the right moment. That explains why some money is kept in district treasuries; and in some districts there are branches of the Presidency banks; in some there are not. I think that the practice of the Government of India is that wherever there is a branch of a Presidency bank it is used as a district treasury. I am sure that I am fairly right about that, but I may not be absolutely right, and Sir James Begbie and Mr. Gillan can say whether it is so or not. Then the money which is not required to be kept in the districts would naturally go to the Presidency towns, to Calcutta, Madras, or Bombay, but I suppose a good deal would go to other towns of first-class commercial importance, because there the government payments would be very large. There is a very long and interesting history of the location of such government money as is held at Presidency towns. For some years all such money was put at the head offices of the various Presidency banks, but in 1874 you will have seen from what I put in my note that there was an incident, not the first one of its kind, which made a very great impression on the Government of India in those days. Certain money which the Government of India wished to withdraw from one of the Presidency banks was not placed at their disposal quite as easily as a government ordinarily would expect, or as a customer would ordinarily expect from his bankers. I may say that in 1898, when I was at the meetings of the Fowler Committee, I was quite astonished and impressed to see what a deep mark that incident had left on the mind of Lord Northbrook, who was then Viceroy. He gave evidence on the subject, and it was a thing that had evidently left a lifelong mark on his mind. In order to minimise the risk of a recurrence of that trouble about getting government money from the bank, the Government of India proposed, as you will see from the correspondence which I put in, to establish reserve treasuries at which certain sums would be held locked up. You will notice that the Secretary of State did not welcome that idea very much; he pointed out certain disadvantages; but apparently the Government of India, having very large powers in that matter, decided to take action without paying too much regard to the Secretary of State's views, and you will see in the papers which I have put in that in 1876 they set up a reserve treasury at Calcutta, and in later years—that is all given in the papers—they set up similar reserve treasuries in Madras and Bombay.

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[Continued.]

34. That was in consequence of the difficulty which they had in withdrawing at short notice their deposit in 1863 from the Bank of Bengal?—No, I have mentioned here that there was a difficulty of that sort in 1863, but the immediate cause of the setting up of these reserve treasuries was a similar incident connected with the Bank of Bombay in 1874. No doubt the recollection of 1863 had a great deal of influence on the action of 1876.

35. In 1874 the Bank of Bombay objected to the withdrawal of a sum of 350,000l.?—Yes.

36. Out of the total balance then to the credit of the Government of India of one million pounds?—Yes.

37. And the withdrawal was postponed in consequence of that protest?—Yes. I cannot say off-hand—I once knew, but I have forgotten—for how long it was postponed. I have not noted it down in my memorandum, but one can easily find it if it is desired.

38. Has the Government any fixed agreement with the Presidency banks?—Yes. They are very long legal documents, and I thought it might do if I gave a summary of what was really important. Shall I read what I put in my memorandum (Appendix I, paragraph 8): “The agreements provide that the banks are to transact general business for the Government at their head offices and certain branches; that they are to receive specified remuneration; that the Government is not bound to retain at the banks any particular sum; but that if its balance at the head office of any of the three banks falls on any day below a specified minimum it has to pay to the bank interest”—and then I quote the words from the agreement—“at the lowest rate chargeable on such day by the said bank to the public for loans recoverable on demand.” “The remuneration of the three banks and the minimum balances that they are to hold for the Government at their head office”—“or head offices” I should have said—“without charging interest are as follows.” The Bank of Bengal has a remuneration of 2,900l. per annum, and the balance that it holds without charging interest is 233,300l. You will, of course, realise that these rather odd figures are due to the fact that figures which are round sums in rupee currency become rather angular sums in British currency. Then the corresponding figures for the banks of Madras and Bombay are:—Madras, remuneration 800l., balance to be held without charging interest 120,000l.; and the Bank of Bombay, remuneration 800l., and balance to be held without charging interest, 133,000l.; but then, as I mention in my note (Appendix I, paragraph 9), and perhaps I had better read that as it is important, “In actual practice the Government of India is much more liberal to the banks than is provided for in the agreements. They usually keep at the head offices of the three banks the following amounts:—“Bank of Bengal, 467,000l. to 533,000l.”; that is 70 to 80 lakhs of rupees; “Bank of Madras, a little over 133,000l.”; that is a little over 20 lakhs of rupees; and “Bank of Bombay, 267,000l. to 333,000l.” that is from 40 to 50 lakhs of rupees. Then, “On the flotation of a loan and in special cases the amounts are increased,” but that is a matter of practice, and perhaps I am going a little beyond your question about the agreements pure and simple.

39. Do the banks pay interest to the Government of India if the balance rises above any figure?—No. On the other hand, to be fair to the banks, I ought to say that I think the Government of India is rather careful not to let the balance rise to an excessive figure. Then, of course, we come on later to this question of special loans granted on special application. When such loans as that are granted interest is paid.

40. I was talking merely of current balances for the moment?—Quite so.

41. Are there any other banks besides the Presidency banks and their branches with which they keep balances?—Not in India. You have heard in Parliament that we have deposited temporarily certain balances at banks in England, but in India I do not think I have ever heard of any government balance

being in any bank other than a Presidency bank. There may have been trifling instances; that Mr. Gillan, of course, would know.

42. Do you use any other banks in India for transferring funds in India?—I do not think so. To the best of my belief the Government of India has no relation with any banks other than the Presidency banks, except, of course, that when an exchange bank presents a bill of exchange which the Secretary of State has sold, then it is the business of the Government of India to meet it; but subject to that I do not think the Government of India has any relations with any other banks.

43. I think it would be useful to the Commission if we could have a summary of the history of the relation of the Government of India with the Presidency banks?—I have noted down what I think are the most important facts. I would like to draw your attention to a book by Mr. Brunyate*; I do not know whether you have seen it. It was written under great pressure of time for official purposes, but I think practically all that is important in the history of the Presidency banks will be found very lucidly and fully set forth in this book, so that if you ever wish to go into it fully I think you could not do better than read Mr. Brunyate's book. I might perhaps mention very briefly the few facts which seem to me of importance and which I happen to know on the subject. Shall I just mention a few?

44. Yes, if you please?—The Government of India first put balances with the Presidency banks in 1862. I think that is the first record of that being done. At that time they had rather a peculiar arrangement. They had certain shares, not a very large amount of shares, in the Bank of Bengal and similarly in the Bank of Bombay and the Bank of Madras; and they had government directors; in the Bank of Bengal there were three government directors and six ordinary directors, and I think that was also the case in the Bank of Bombay; so that on the one hand they would have a great share in managing the bank, and also they were very important customers and depositors of the bank. I do not know whether I am giving you too much detail, but I will try not to make it too extensive.

45. I want as brief a summary as you can make clear?—In 1862, when they began to deposit with the banks they had an arrangement which is set forth in Mr. Brunyate's book at page 83, of which it seems to me the important point is that though all the money of the Government in the Presidency town was lodged with the bank, the bank could only handle as banking money 70 lakhs, a little over 400,000l. at the present rates; all the rest of it was locked up by the bank, or if we preferred it, we could invest it in government securities. It is a somewhat peculiar arrangement, but still that is what the arrangement was. That arrangement went on only for quite a short time, until 1866, I think, and then the agreements were revised and practically—I will leave out some technicalities and some obscurities—what happened was that from 1866 to 1876 the Presidency bank handled all the government money which was in the Presidency town. The district treasuries, of course, held a certain amount of money, but the large sums that were in Calcutta went to the Bank of Bengal to be dealt with as they wished, and those in Bombay to the Bank of Bombay, and so on. After ten years of that great freedom the Presidency banks found that the great blow, as probably they regarded it, fell upon them of the establishment of these reserve treasuries which I mentioned, which took away a very appreciable sum of money from them, and naturally the policy of the reserve treasuries has been under discussion more or less from the day when they were established until the present day. The only other point I ought to mention is that in the year 1876, when a new Act regulating the Presidency banks was passed, one of its provisions was to abolish the three government directors whom I mentioned previously,

* An account of the Presidency Banks, published by the Government Press, Calcutta, 1900.

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[Continued.]

and there were also a number of important restrictions introduced, but that does not arise out of your present question; you might possibly ask me about that later.

46. I will come back to it if we want it. Since the establishment of the reserve treasuries there has been substantially no change in the Government practice?—Quite so. There has, as a matter of fact, been a series of alterations of the Presidency Banks Act so as to give greater freedom to the Presidency banks, but I cannot recollect that the relations between the Government and the banks has been altered to any material extent, except, of course, that there has been a little more open recognition, I think, of the desirability of the Government lending money on interest to the Presidency banks at times of pressure.

47. I was coming to that. Would you tell us about that, please, how it arises, and, as briefly as you can, what is done?—I think you will notice at the beginning of Appendix II., pp. 32-5—one does not like to go back too much to ancient history, but I think it is worth doing so in this case—there is a despatch dated 6th May 1875 from Lord Salisbury, who was then Secretary of State, in which he generally recognised that the Government of India had considerable powers of handling their balances in India as they wished—putting them with banks, or lending them. He recognised that he ought not to control that particular business very much, and the Government of India, I believe, from time to time, I cannot say how frequently, did grant loans on interest to Presidency banks, but our India Office records are very incomplete about that matter until a discussion took place which is summed up in a despatch to the Government of India dated 4th May 1899 which will be found in Appendix II., pp. 62-4. You will see that the Government of India in 1899 submitted proposals for lending money temporarily and at interest to the Presidency banks, and the Secretary of State said that *prima facie* it was not his concern, that they could do as they wished, but then he put in the remark which I imagine had a great deal of influence on the Government of India, that ordinarily he thought that such loans should be at bank rate, not below bank rate, as the Government of India had wished. I have been told by people with whom I have discussed it that that is a very important matter, because loans would have been sought more eagerly by the Presidency banks if they had been granted below bank rate and there had been an opportunity of profit. I cannot say whether that is so or not, because in one rather important passage quoted in paragraph 15 of Appendix I. you will notice on page 4 that the Bank of Bengal say: "The suggestion which my directors would make is that when the bank rate rises to a height that indicates undue pressure the Presidency banks may be able to rely on procuring loans through the Comptroller-General either from the reserve treasury, or failing this, from the paper currency reserve, at the current rates for demand loans on government paper, rising and falling therewith." You will notice the phrase "at the current rates" not "below the current rates." Then the Bank of Bengal, feeling no doubt that this was a rather generous offer, made some remarks about the motives which led them to submit it. They say: "In submitting this suggestion my directors desire me to state that it is made with the sole object of ensuring a steady supply of loanable capital at moderate rates. These loans will yield profit to the Government and benefit all who are interested in a steady money market, while the bank would undertake without profit to itself the risk and labour involved"; so I do not know really whether it is a question of the rate of interest which has caused these loans to be taken so seldom in recent years or whether other conditions have stood in the way. That is a subject upon which I have no doubt the Commission will get evidence from people better qualified to speak than myself, but I think both views are sustainable.

48. Is it in your opinion desirable to encourage those loans?—Of course, that raises an enormously difficult question. I think that when the money market upon which trade depends is suffering from

extreme stringency which can be alleviated by the very simple process of unlocking a government treasury and lending some money on good security and with a certainty of repayment, it is, *prima facie*, a bad thing not to apply that medicine to the temporary complaint; but at the same time, of course, there are questions whether the banks are strong enough to justify a very large increase in the amount of government money placed with them—I do not attach very much importance to that—and then there is the much larger question how far a great money market like the Indian money market should rely on government resources as distinct from what you may sum up as its own resources. My own feeling is that it would be well that with discretion the Government should apply a dose of this remedy occasionally; but there is very much to be said on both sides.

49. That has been the view taken by the Secretary of State?—Yes, I think that generally the Secretary of State has not wished to be restrictive, though I wish to be quite fair, and I think that one might say that the effect of his *obiter dictum* about the rate of interest was possibly restrictive to a greater extent than he intended or would have desired.

50. Now, if we turn to the balances in London, should I be right in saying that the main consideration which guides you in regard to those balances is the amount of the charges which you have to meet in London?—Yes. Of course, the balances exist merely in order to meet the Secretary of State's requirements, and perhaps I might add that he often does have balances which are intended to meet, or will be used in due course to meet, future requirements and not immediate requirements. In the paper which I have put in I have endeavoured to explain and justify the policy and practice which led to that state of things, but, as you say, the object of the balances is that they may be spent in London on Indian purposes.

51. Where are the balances kept in London?—There is an arrangement that not less than half a million pounds shall be kept at the Bank of England. It is very curious that the written basis of that arrangement is not discoverable, though it has been recognised orally before commissions and select committees for very many years. Practically the rest of the balances are on loan, usually to approved borrowers against security.

52. If your balances become abnormally high do you ever go outside those two places of deposit?—Yes, as you know, we have deposited large amounts with joint stock banks. That was the case from 1909 to 1912, but in 1912 the balances sank to such a level that the broker who is our agent for lending to approved borrowers found that he could place all the money, and there was no occasion to continue the rather unusual practice of depositing with joint stock banks.

53. I suppose you keep a small balance at the India Office itself?—At the India Office I believe we start each morning with about 2,000l., and in addition to that what I said in reply to your question was not absolutely exhaustive, because there are certain sub-accountants, as they are called in Treasury language, who have some money. I think that the War Office, who are always spending money for us, have an imprest of 40,000l., or something of that sort, and there are certain small sums placed out with people who spend it on our behalf, but all that is very trivial.

54. That practically exhausts the location of the balances in London?—Yes.

55. As regards the amount of those balances you have put in some figures; I think it is Statement B in Appendix II. (pp. 74-5)?—Yes.

56. From those figures it would appear that the total balances have been very high in recent years?—Yes.

57. Will you give me, in general terms, the reasons for that?—Yes. If one wanted it in detail, it would be necessary to go through all those figures, or some of those figures in Statement A in Appendix II. (pp. 67-73), and compare the Budget estimate and the actual

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transactions in each year from 1907-8; but that would, perhaps, take time. I think in general terms this would be a fair summary of the reason of the high balances. In the first place, the revenue receipts, or rather the excess of revenue over expenditure, that is to say, the revenue surplus, has been in the actuals far higher—higher, you may say, to an extraordinary degree—than the estimated surplus. I should mention here that that fact is sometimes overlooked, because when the Government of India has had a cash surplus of, say, six million pounds or so, it sometimes makes grants of very large sums to provincial governments, and then the declared surplus as shown in the financial statement is reduced by the amounts of such grants; but it is very important, if this is not too technical a point to mention, to notice that these reductions in the declared surpluses do not reduce the actual cash balance which is held. I do not know whether I have been obscure there; but it is very important to bear in mind the difference between the cash surplus and the declared surplus.

58. No, I do not follow. The Government of India, I understand, finds itself with an unexpected surplus which has swollen its balance?—Yes.

59. Having money available, it then takes the opportunity of making a grant which it wishes to make to some provincial government?—Yes, that is so.

60. But you say that the balance is not reduced by the making of the grant?—Yes.

61. Why?—That is so important that I venture to put it at this stage. It is no more reduced, if I may put it in this way, than a banker's balance is reduced if a customer A who banks with him pays a cheque to the account of customer B who banks with him. All that the banker has to do is a book-keeping transaction. Supposing the Government of India has received in cash six million pounds more than it has expected, and then it appears that, say, in the Province of Assam more money is wanted for school buildings which will take several years to complete, it makes a book-keeping entry to the effect that it has allocated so much of its extra money to the Province of Assam, and year by year, perhaps over a very long period, that money is actually drawn out by the Province and spent; but the reduction of the declared and official surplus takes place at once, while the cash reduction takes place very slowly and over a very long period of time, so that the figures of the official surplus or the declared surplus very often give you an extremely incomplete idea of the cash position.

62. A misleading idea, in fact. As I understand your meaning, it is that the Government of India has placed to the credit of the provincial government a certain portion of the balance standing to its own credit; it has given to the provincial government the right to draw that money when that government pleases?—That is so.

63. But it continues to show its own balance as if that money were its own, and not, as it has become, the money of the provincial government?—May I correct you on one point?

64. Please do?—You say it continues to show it in its own balance. It could not do otherwise. I mean the money is in its own balance. It has locked up partly, in district treasuries, and partly in head offices of Presidency banks, and so on, large sums of money against which it has certain liabilities, and in the case that you were discussing what it had done by making a provincial grant was to create an extra liability to be met out of its balances; but creating an extra liability to be met out of your balances does not, *ipso facto*, reduce your balances, and I do not think the Government of India could do otherwise than it actually does.

65. But ought you not to do one of two things; either to transfer that sum to a separate suspense account at once, or else in your balance sheet to show the obligation against the money which you hold?—We do that. I mean if you read those painfully voluminous documents which we publish every year, the Indian Financial Statement, and so on, you will find all that information is given; but the point that I wish to mention is this, and I mention it because I

think that by bringing it out here it may lessen some misunderstanding. A person who is an expert in Indian financial practice and book-keeping would, of course, at once understand that a very large increase in the cash surplus was compatible with a very small increase in the declared surplus in any particular year, because the declared surplus would be, if I may put it very briefly, the cash surplus after allowing for the new liability which has been created.

66. (Sir Shapurji Broacha.) The balance of the revenue has been accumulating in India in the hands of the Government of India until the next budget is out, and sums allocated to the provincial governments and other objects?—Yes.

67. Then how does that balance become transferred to England; I suppose by the over-sales of council drafts, because before the allocation is made a good deal of the balance is here?

68. (Chairman.) I think I must interrupt, because I think we are getting on to rather a different point from what we were on. (To the witness.) May I put my question to you differently? If I understand rightly what you have said now, it is that the amount of the actual unallocated surplus is reduced by these grants to provincial governments, which are in effect power to draw?—Yes.

69. But the actual cash is not reduced, because the power to draw is not immediately exercised?—I could not possibly better that. That is exactly the fact, and I drew your attention to it merely because anyone looking at the figures of the rather moderate surpluses which are declared by the Government of India might be astonished to find that there are such very big cash surpluses and cash balances. Now I think from what you have said it is clear that there is no mystery about that.

70. That is one reason, I understand you to say, for the large balances there have been in recent years?—It is one and the most important reason. May I, before going on from that, draw your attention to one statement; I think it is Statement E in Appendix II?

71. That is the statement headed "Net revenue and expenditure of the Government of India (excluding provincial adjustments)" on page 81?—Yes. You will see why I put in the title of that statement, "Excluding provincial adjustments"; it is to bring out the fact that you were just mentioning. You will see in 1909-10 there was nothing very extraordinary; I mean that there was an excess of a million and a half in the surplus. Then you get to 1910-1, in which there was an excess of six million pounds odd—a little over six million pounds in the surplus; in 1911-2 you get 5,800,000*l.*, and in 1912-3 you get, roughly, seven and a half million pounds excess of the realised surplus over the budget surplus. In the next column you will notice that I have added up the excesses of the four years mentioned, and you will see that they have amounted to 20 million pounds sterling. When you have a divergence between the budget estimate and the actual results of that magnitude, I think you will see that it is a little difficult to keep your balance at any particular sum which you have set before yourself as the ideal sum for your balance. Before passing from the revenue account I should like to say that to a great extent the divergencies have been due to the position of opium. Do you care to go into any details of that sort?

72. No, if you will tell me very briefly this: Are those disturbances which are likely to recur, or are they due to special circumstances?—In the future?

73. Are they likely to recur in the future?—No. I am afraid, as far as one can gather, that the opium trade between India and China is quite dead. Of course, that must not be taken as a statement of policy, but as far as I, as an outsider in the matter, can judge—

74. As a financial estimate?—As a financial estimate, yes.

75. Then you attribute the high balances in these recent years in part to these unexpected surpluses, or largely to these unexpected surpluses?—Yes.

76. And the surpluses themselves largely to the peculiar circumstances connected with the opium trade in those years?—Yes. That is the first head of

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my reply to your question. Then if you care to look through the figures, you will notice that in some years the whole expenditure on railways was very much less than had been provided for. Although I do not want to ask you to linger over details, I would just draw your attention to the year 1909-10, for example, in Statement A in Appendix II. on page 69. You will notice that the railway and irrigation authorities underspent their grants in 1909-10 roughly by a million and a half, if you look under head 9. Then if you turn to the corresponding figure in 1910-1 over on the next page you will see something still more striking; you will see No. 9: "Capital outlay on railways and irrigation works," and if you look at the last figures in the column you will see the total decrease of actuals as compared with budget rose to the remarkable figure of four million pounds. Those failures to spend the amount which is provided for capital expenditure add to the difficulty of keeping one's balance at exactly any figure that one had aimed at, more especially because the probability of their occurring is only known either to the Government of India in India or to the Secretary of State here quite a short time before the end of the year. From your Treasury experience I am sure you will understand that when a spending department fails to spend, it probably does not find out that it is going to fail to spend until quite late on in the financial year. That, I think, is the next most important cause after the revenue surpluses. Then there are certain, I think accidental, facts. During a certain period, which is included within the last five years, there were some windfalls mainly in this very large opium revenue, and it was decided, and I think very wisely decided, to hold them up in order that from them the Secretary of State might meet certain very heavy capital liabilities which he had to meet at specified times, but not immediately. I think perhaps it is worth while looking at despatch dated 23rd December 1910 from Secretary of State for India to Government of India, No. 147, in Appendix II. on pp. 65-6. The Secretary of State there sets forth this very formidable list of maturing obligations which he had to meet, amounting in all, as you will see, to 13,942,500*l.* in a short number of years, and then he explains that certain money which he has decided to set apart for the reduction of debt shall be applied towards meeting these particular obligations; but I think you will see there are good reasons for beginning the expenditure of that money in the year 1912-3 though the despatch was written in 1910. The holding up of that money for that period naturally made the balances rather high; I mean it was a contributory cause to an increase of balances.

77. Generally speaking, your evidence comes to this, that these balances were abnormally high in part owing to certain proposals for reducing debt—paying off debt—and mainly owing to accidental causes which could not have been foreseen?—I think that is so, yes—well, causes which I should say were not foreseen. Of course, it is very undesirable in a matter of this kind to distinguish between the Secretary of State and the Government of India. I mean in a sense they are one, but perhaps it would prevent or minimise misunderstanding if I explained that when the Secretary of State forms his budget for the year he relies entirely on the Government of India for an estimate of revenue. If the Government of India says "We estimate the opium revenue at so much," the Secretary of State does not question it. I think you will probably agree that he is wise in not questioning it; so that what I should say, and I think it is an accurate statement, is that these excesses of revenue were not foreseen by the highly responsible and capable officers of the Government of India who prepare the Budget. It is probable that they could not be foreseen. You know that in preparing a budget one's personality does play a very considerable part.

78. That is sufficient for my purpose at the moment. I understand from that that the balances were not raised to this amount of set purpose?—No.

79. But were brought to it by accidental causes which had not been foreseen?—Yes. I ought to say

that so far as money was kept in the balance from say, the end of 1910 to some time early in 1912 in order to be used then for paying off debt, to that extent it was voluntary and deliberate, and for reasons, and I think adequate reasons, which are set forth in this despatch of Lord Crewe's of December 1910, but except for that, as you say, the high balances were involuntary.

80. As regards the division of the balances between India and London, what determines the amount of the balance which is kept in India; I mean the proportion of the balance?—There, again, I think Mr. Gillan will agree with me, but of course he may wish to correct me. The Secretary of State, in making his budget, which involves, among other things, drawing money from India, says to the Government of India, "How much can you spare?" because, of course, you would never dream of drawing from India more than the Government of India could spare; but I fancy that of late years the Government of India have, and, as far as I can judge, very wisely, rather raised their estimate of requirements. I fancy that Sir James Westland, who was a very eminent Comptroller-General, used to be very proud of being able to say, "I can work the business of the Government of India on eight crores of rupees, at any rate as a minimum," which comes to between five and six million pounds sterling. Nowadays I think the Government of India always say to the Secretary of State, "You must leave us a closing balance of twelve and a half millions or thereabouts," and the Secretary of State has always accepted that; it is the kind of thing he would never question. If one says, "What is it based on?" I can only say that I presume it is based on actual experience. In some of those papers you will notice a discussion of the sort of experience upon which an estimate of the balance required can be fairly based. In one of Sir James Westland's papers you will see that (pp. 42-7).

81. Speaking generally, do I understand that you keep in India what the Government of India consider a reasonable minimum balance?—I do not know whether "a reasonable minimum" quite hits it off. I should say "a reasonable balance." I mean I would not think it is right, if I may use the expression, to cut the Government of India to the bone—to bring down their balances to such an extent that there would be a danger of inconvenience to them. I should say "a reasonable balance" rather than "a reasonable minimum balance."

82. But substantially you keep as much of the balance as you can in London?—No, we do not keep as much as we can in London. That really is a very important distinction. We bring to London as much as we can without inconvenience to the Government of India, not in order to keep it there, but in order to spend it there, and I think you will see that it is very important to distinguish between those two things. Supposing that in a certain year the Secretary of State decided that he could bring over two million pounds more than someone else thought that he might bring over, the effect of his doing that, if he conducted his affairs in the way in which Secretaries of State usually do, would not be that he would end the year with two million pounds more money, but probably that he would end the year having either borrowed two million pounds less for his new railways, or having paid off two million pounds of temporary debt, or something of that sort. I am very anxious, if I may say so, more especially in view of a good deal of misunderstanding that has arisen, to emphasise the difference between bringing over as much as the Government of India can spare and keeping in London as much as they can spare. I think I have made the difference clear.

83. I think I understand. Is this correct: That you keep what is considered by the Indian Government a reasonable balance in India?—Yes.

84. That you transfer everything over that figure to London; but that by the end of the year, subject to such contingencies as you have described to us a little earlier, you expect only to have a reasonable balance in London also?—That is so.

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85. Having employed the other money transferred to London from India in the interval on behalf of India in place of fresh borrowing?—Yes.

86. In paragraph 13 of Appendix I. you speak of alternative possible methods of dealing with Government balances in India. The first you say would be to increase, either with or without interest, the amounts placed with the Presidency banks?—Yes.

87. I gathered you are not in favour of that course?—I would not quite accept that; and before I speak about this may I say what I think will be clear to you, that although I come as a representative of the Secretary of State, what I say is not to be taken as an authoritative statement of his policy? Lord Crewe has very kindly allowed me a certain latitude in putting my own opinion, so long as I do it with discretion, on some points which are necessarily matters of opinion.

88. We will take your opinion in this matter as the opinion of a person of great experience?—It is very kind of you. As regards lending to the Presidency banks, the important question is whether they are strong enough to be recipients of much larger sums of money than they now hold. I should like to say that I have no clear opinion upon that subject myself. I think it is a question of the most enormous difficulty to say at what stage it becomes unsafe for a very big customer or depositor with a bank to increase his deposit with that bank. I was anxious, though I do not profess to give exhaustive figures, just to give you some figures which might be helpful to you. I am departing, I may say, a little from the order in which that memorandum was written, but I think this oral order is a little more logical. If you look at these figures, which are given in paragraph 15 (2) of Appendix I., you will notice that the percentage of government deposits, both to cash and to capital reserve, are much higher—may I put it in this way—than you would expect the percentage of any one customer of a bank would be in this country. At least, I think most bankers would be rather surprised to find in this country that they owed a particular depositor say 30 or 56 per cent. (to quote figures which I notice) of their total cash; but though I think those figures ought to be borne in mind, I do not say that they are conclusive. I feel really very much my incapacity to form a very definite opinion upon the subject. I would draw your attention in passing to the middle column, "Bank of Madras, 1911, March." If you will notice the figure there, the percentage of government deposits to cash is 121 per cent. I think that at that particular time it would not have been a good thing to lend more government money to the Bank of Madras: but I merely mention this as one of the subjects which would have to be considered and about which a conclusion would have to be reached before the Government placed large additional sums, especially without security, with the Presidency banks. Then if that question is settled, I mean if it is considered that large additional sums may be placed with the Presidency banks, then I was rather interested, and I have ventured to go beyond what has ever been said in the India Office upon the matter, in regard to what should be the source from which the money should be provided, and suggested that the source should be the paper currency reserve.

89. We will not open that question just now. I understand that you do not wish to express a decided opinion as to increasing deposits with the Presidency banks, either for yourself or for the Secretary of State?—No, I think it is eminently a question which wants very full consideration, much fuller consideration than has been of recent times given to it in the India Office.

90. Has it been proposed to you from any responsible source?—I do not think so. Of course, we are very often in communication with the Government of India on this question, and we note their statements and their replies, and naturally we are very much influenced by their views upon such matters. I think I might draw your attention to what the Government of India said quite recently in this Memorandum on India Office balances; it is a paper which we presented to Parliament.* We mention there that on Sep-

tember 18th, 1911, when the Financial Member of the Government of India was asked at a meeting of the council—the question did not directly raise the making of loans to the Presidency banks, but I think you will find that the answer did—whether the Government would lend to the money markets of India when their balances were high, he said: "The Government of India leave considerable sums out of their Indian cash balances on deposit with the Presidency banks. They do not consider it advisable to make a practice of lending to the money markets in India in any other manner or to any larger extent." Of course, the Government of India is the most authoritative and responsible adviser for the Secretary of State in such matters.

91. That is a strong expression of opinion against it; you have had no strong expression of opinion in its favour?—Well, the newspapers are very full of it, and a good many individuals, to whose opinions I should attach much importance, have often said to me that we ought to do something in that way.

92. Perhaps we had better wait until we have one of those witnesses before us?—I wanted at some time to mention, because I think it will be useful to you, a further expression of opinion from the Government of India on a similar question.

93. Please do so now?—In a telegram, which is long, and with the greater part of which I will not bother you, the Government of India say to the Secretary of State, "In addition we would remark that, while we are ready when money is required owing to quite exceptional market stringency to make advances to Presidency banks, we have for five or six years past received no request for loans of this kind."

94. (Mr. Keynes.) What is the date of that?—That is 22nd January 1913. Then dealing at the end of this telegram with a large number of questions which were discussed—I think, perhaps, at some time, I might read the whole of it, but I do not want to take up your time now—

95. (Chairman.) Can we have it before us*?—It says: "On the points put to us, we think that although improvements may be from time to time suggested by experience, the practice now obtaining is generally sound, and having regard to the absence of complaints over a long series of years that responsible opinion in this country is in agreement with us." That rather emphasises what I read from the memorandum, but it is a little more explicit, and I thought it was worth mentioning it.

96. I gather that you would not suggest lending to any other banks in India?—On that question again I have to plead that my information is rather incomplete. You will notice that in the information I gave you about minor banks the figures were all lumped together; 20 banks with a capital of so much, and deposits of so much. The reason I gave them to you in that not very good form was that the documents from India did not enable me to give it to you in greater detail. I dare say it may be worth inquiring from Indian witnesses whether among the other banks in India there may be some who would be suitable recipients of government deposits. I do not know. I would suggest that that is a point upon which Indian experience might be sought.

97. I think it has been suggested that you might lend money to firms and institutions other than banks. Do you wish to say anything about that proposal?—I would only like to say this, that I have often spoken about it with commercial men and others who have a great deal of knowledge of Indian conditions, and most of them have thought that it would not be a good thing for the Government to lend in India direct to commercial firms. They have mostly thought it would be better to put money with banks and then let the banks have the duty of exercising discrimination and have the responsibility, and that seems to me to be common sense; but otherwise I have no special knowledge of the subject.

98. You spoke at an earlier point of your evidence of the possibility of establishing a central bank, and I think there were some papers which you offered to give

* Cd. 6619.

* See Appendix II., page 66.

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to us in that connection*?—Yes.

99. Do you think that the establishment of a central bank would largely affect the questions of the balances kept in India?—That is a very difficult question, for this reason. Supposing you had a central bank with a capital consisting of an amount equal to the capital of the present Bank of Bengal plus the capital of the present Banks of Madras and Bombay, of course you would have no stronger body to deal with than you have in the three separate Presidency banks now. But if you had a central bank with a capital of the amount of the respective capitals of the three Presidency banks plus four or five million pounds more, then you would be in a better position to lend money to the banks, and these rather extraordinary percentages, to which I drew your attention, would come down to some lower level; I mean those percentages in paragraph 15 (2) of Appendix I. But the important fact in answering this question seems to me to be that whenever a question of increasing the capital of the Presidency banks has come up (and it has come up from time to time) the Presidency banks have received it. I was going to say tepidly, but I think, perhaps, I ought rather to say frigidly. I have some extracts here, but I do not think it is worth while troubling you with them-----

100. I am not now asking about the opinion of the Presidency banks. We shall probably get that better from the representatives of those banks themselves. I was asking for your opinion, or for the opinion of the Secretary of State in Council, in whichever form you like to give it to me?—I think the right answer is, if a central bank had a much larger capital than the respective capitals of the three banks, it would obviously be a safer banking body with which to place large sums of government money; but that answer is almost a mere formal answer, I think, unless one adds that the willingness of the Presidency banks if amalgamated, to add to their capital is very doubtful.

101. In the meantime the Government of India does a great deal of banking business itself?—Do you mean in exchange business?

102. Exchange business, and, apparently, in coming to the aid of trade or the money market in times of stringency, and in a number of different ways?—I think if you asked Sir James Begbie he would say that actually the Government of India does extraordinarily little in coming to the aid of the money market in times of stringency. In the telegram, of which I read you an extract, the Government of India mention that it is many years since they were asked to grant a loan in times of stringency, and, in paragraph 10 of Appendix I., I give a list (I think it is complete, but I am not sure) of occasions upon which the Government of India have done what you say, and the list ends rather remarkably with the year 1906.

103. But I understand, although the occasion has not arisen, the Government would be perfectly ready to do it if the occasion arose again?—Yes, quite so; but the occasions do arise infrequently.

104. The Government of India does a great deal of business which the Government of Great Britain would not touch?—Yes.

105. In putting that question I wish you to understand that it is a question; it is not a criticism at this stage. I am merely trying to get at your view of the facts?—Yes, what I wanted to say in reply to that is that it is perhaps not strictly accurate to describe what you have just mentioned as "banking business." If the owner of a large sum of money feels that he cannot employ it himself and puts it in a bank, in a way I see what you mean by describing it as "banking business," but perhaps that is not the exact description of it.

106. "Business usually done by bankers," would that meet your view?—No. Supposing that any of us were fortunate enough to have 5,000,000*l.* at our disposal, and we paid it into a bank, which is what the Government of India does in these circumstances you describe, that is not banking business. As a matter of fact, it facilitates the operations of banking as carried out by bankers, but it is what I should call rather the customer's business than the banker's business to pay

the money into the bank.

107. As regards the India Office balances, you have already told me that you aim to keep them low at the end of each year, working them down at the end of each year to what you consider a reasonable figure?—Yes, which figure would vary to some extent with the year, but not very much.

108. And is regulated by the experience you have of the average needs?—Yes. One might put it a little more strongly. One knows really in March, what one will have to spend in April; at least one knows to a very great extent, and you will find when you come to Mr. Badock's figures* that actually in the first days of April we do have to spend enormous sums of money; so that that is the governing consideration in fixing this balance at the 31st of March.

109. How far do the gold standard and paper currency reserves affect the amount of the India Office balance?—I should say that they do not really affect it at all. Of course, certain sums pass through the India Office balances on their way to the gold standard reserve or the paper currency reserve, but it is a mere passing through. I do not know if you have this in your mind, that in the same way as we lend our India Office balance proper we usually have a million pounds on account of the gold standard reserve lent to approved borrowers, but, subject to that, I should say that those reserves which you mentioned are quite distinct from the India Office balance.

110. With regard to council bills and transfers, when did the practice of selling council bills and transfers begin?—I think it was 1862. I have not myself looked into the old papers, but I am assured that that was the case.

111. I understand that you do not propose to give details of these transactions, and that they will be given by Mr. Newmarch of the India Office†?—Yes, of course it is difficult sometimes to distinguish between details and principles, but I do propose to give that sort of information on the subject which is contained in the prints that I have already submitted.

112. Perhaps you can tell us within what limits the Secretary of State is willing to sell bills?—Limits of price, I think you mean.

113. I mean both. I meant, in the first place, limits of amount?—The general practice of the Secretary of State as regards the amount is to sell freely; that is to say, so long as the Government of India could meet the bills without inconvenience to themselves, the Secretary of State would sell to applicants, subject to this: when the demand was large he would like to get a good price for them, and he would be specially anxious to do that because, unless he raises the price, and, possibly by so doing reduces the amount, at times of pressure, there is no probability, or no great probability, of large amounts of gold going to India. I do not know whether you have followed the competition between gold going to India and the sales of council bills; it is a somewhat technical subject.

114. You must assume, please, that I do not come here equipped—that I have to get my knowledge here?—Perhaps I had better say a word about that. When, let us say, an exchange banker has to provide, or, as he always says, "lay down" a certain sum of money in India, there are various ways in which he can do it. One way is to buy a bill or telegraphic transfer from the Secretary of State. Then he pays the money to us, we telegraph out, or we send out the bill, and the representative of the purchaser receives from the Government of India such and such money in rupees. The alternative system, or the alternative open to the purchaser, is to take sovereigns, either from Australia, or from the Bank of England, or from Egypt, wherever he can get them, and to send them to the Government of India, and get rupees in exchange for them, and he gets them then at a fixed price. There are 15 rupees issued for each sovereign, which is 1*s.* 4*d.* per rupee. Of course one cannot speak definitely about costs, because costs are continually changing, but it costs, I should say, one-eighth of a

* See Appendix XI., page 320.

† See Appendix VII., page 217.

* See Appendix XV., page 355.

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penny to send to India the part of a sovereign which is equivalent to a rupee. I mean a man who was sending out sovereigns would probably have to pay in gross (including interest) the equivalent of 1s. 4½d. per rupee, so that if the Secretary of State were always selling his bills very freely and in large quantities no one would ever send out sovereigns, or very few people would send out sovereigns for currency purposes, or for exchange purposes, and the Secretary of State has to try so to sell his bills as not to interfere with the flow of gold to India to a reasonable amount. I do not know whether I have made that clear?

115. I am not sure that I entirely follow what in practice that amounts to. I said: What are the rules with regard to the sale of these bills; to what extent is the Secretary of State willing to sell? Is the answer: To such an extent as does not prevent the reasonable flow of gold to India?—I say that is one of the conditions to which he has regard in fixing the actual amount of his sales from time to time. That is not the only condition, but that is one of considerable importance, which I mentioned here more especially, because some critics have imputed to the Secretary of State principles which he does not hold, and which he does not follow in this particular matter. But I should say then, if I have made clear the point about the competition between gold and bills, that the Secretary of State generally sells freely, so as to meet the demands of trade, subject to not interfering unduly with gold going to India, and causing no inconvenience to the Government of India, who have to pay these bills; and also—this comes to the other part of your question—subject to not selling at a lower price than 1s. 3¾d. per rupee, and I ought to mention, to make it complete, that he has given an undertaking to sell, without limit, bills at the price of 1s. 4½d. per rupee.

116. Then the amount of his sales is regulated not by the amount of his own requirements, but by the amount of the trade requirements of India?—I think that is about 90 per cent. true, if I may put it so. I mean when an estimate is drawn up of what will be sold in the course of the year, his own requirements are what are mainly considered in drawing up the estimate, and I think, to some extent, at some periods of the year, the attempt is made to make the actual transactions conform to the estimate; but I do not think it is a very vigorous attempt, and supposing one finds, as the year goes on, that the Government of India can meet bills freely, and that there is a very great trade demand for bills, and at the same time there is a sufficient amount of gold held by the Government of India, so that people cannot say that the internal circulation of gold is being starved, then the Secretary of State would sell freely, and would gradually come to be guided by the trade requirements, rather than by his own requirements for expenditure.

117. The governing factor would not, in that case, be the amount which he had to transfer from India to England?—No, as the year went on, he would gradually, towards the end of the year, which is the busy season of the year, be guided by the other considerations which have been mentioned.

118. Then do you think that that is business which might fairly be called banking business?—Yes. When you asked whether the Government of India did banking business, your question came at a moment when you were discussing what you may call the deposit side of banking business, and I think my answer was that I did not think that the Government of India did much of that kind of banking business, but that they do do exchange banking business; so that my answer to your present question is in the affirmative.

119. Would you see any advantage in transferring that business to a bank, or to a great central bank, if they were able to take it?—I hope later on, if you wish to hear me on the subject of a bank, to deal with that question more systematically, but perhaps I may say this at this stage, that although the Secretary of State has never considered the matter, and indeed when considering the question of a big central bank has always left the exchange question, I mean the question of transferring exchange business to such a bank, out of consideration, still I personally see some

advantages in letting business of this sort be done by a bank, subject—and I want to say this at the earliest possible moment, so as not to give rise to any misunderstanding—to a very large degree of government co-operation and control, which I think would be necessary before such business could be entrusted to a bank.

120. If it can be done, do I gather that you would think it desirable to do it?—On the whole I rather like the idea. Whether the Secretary of State would like it I cannot say, but I have made clear to what extent I am speaking of my own opinion.

121. (Lord Faber.) There are a few questions which I should like to ask you. Some of them are no doubt due to my ignorance. You began by saying that India in the last two or three years had found it much more difficult to borrow, but I apprehend that that does not apply to India alone. That is general; all gilt-edged stocks have fallen?—Certainly.

122. India's credit is as good relatively as it was?—I am the last person in the world to wish to answer that in the negative, but I am afraid you will find if you compare Indian stocks say with Colonial stocks or London County Council stocks, and so on (which I think you will agree is a fair comparison), that India has rather gone down. My recollection is—but this is a very rough observation—that at one time Indian stock stood about half-way between London County Council stock and Local Loans stock, all being 3 per cent.

123. I think you are right there. My impression is (and, of course, as a banker one comes across these things very frequently, and the reason of them), that by the treatment which was meted out to some of these railway debenture holders when they were paid off under the Madras Railway arrangement, for instance, and other big things of that sort, the shareholders thought they had been hardly dealt with, I do not say unjustly dealt with, but hardly dealt with, and that rather, perhaps, hurt Indian credit?—Of course you only put this in incidentally, but would you allow me to say that I do not think that is the real explanation. I should be very sorry to raise controversy, especially on things that are unessential, but I do venture to think that such troubles as we have had with railway companies have been very amicably settled, that any grievances have been forgotten, and that after all these transactions to which you referred had taken place, India stock stood at the level which I mentioned, half-way, say, between County Council stock and Local Loans stock; and since then, when no new railway controversies have arisen, India stock has rather gone down, and I think that the explanations are really fairly obvious. One is that India has issued very large amounts, whereas the County Council has thought fit practically to stop its issues of stock, and the other is that, as is notorious, there is a certain amount of uneasiness; I mean people read about the sedition, and so on, and that is a point against India stock.

124. Then, in answer to our Chairman, you rather astonished me by saying that if there is a surplus in the budget of any year it is not used to pay off debt, but it is carried forward, I conclude. Do you not think that that is a bad principle? At home we always think that it is a safeguard, as I think Mr. Austen Chamberlain will tell you, that a Chancellor of the Exchequer, if he budgets for too much, cannot take advantage of that surplus, and therefore a Chancellor of the Exchequer has no reason to budget for more than he wants, because he cannot use it himself. Now, here you budget for too much, and it is apparently owing to that that you have these big balances?—Yes. As a matter of fact, no one regrets more than I when there are striking differences between budgets and actual results. I mean it is unfortunate that one cannot foresee the future; but, of course, the circumstances in India have been such that foresight was really extremely difficult, if not impossible, for some years past. But, as regards the disposal of this unexpected surplus, which was the main object of your question, if in a certain year one wants six millions for capital expenditure—I take that as an illustrative

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figure—supposing that at the beginning of that year you find that you have an unexpected balance of four millions from the previous year, I do think that you will agree, on turning over the matter, that there would be no great advantage in first of all spending that four millions on buying up and paying off four million pounds worth of India stock, and then perhaps a week afterwards—I put an extreme case—issuing six millions in India stock. The neater and more economical way seems to be to use your four million pounds for capital purposes, and to borrow two million pounds.

125. You mentioned Lord Northbrook's fears in 1874. I think it was, and you read to us certain strenuous agreements which were made with banks regarding the government deposits. I would ask you this question: In time of great stress do you think an agreement is worth anything at all if the cash is not there?—I might answer that question rather briefly, but it is more courteous to put the real facts, I think. The Government of India has, I think, never failed to keep with the Presidency banks the full amount which the Presidency banks may reasonably expect. What has happened from time to time is that the Presidency banks have wished to have extra amounts kept with them, or to have a high balance which existed at the moment allowed to continue for a long time, and then differences of opinion have arisen. You will notice in Lord Northbrook's instance that the Government of that time had with the Bank of Bombay one million pounds sterling, which was much more than the bank could expect, and in that instance the Government proposed to withdraw 350,000*l.*, leaving 650,000*l.*, so that the demand for exceptional treatment was on the side of the bank, which wanted more than usual.

(Lord Faber.) I am rather alluding to such an instrument as an agreement with a banker. I speak now as a banker; an agreement with a bank is of no use if the bank has not the money to pay back the deposit; the only thing which is of use is to give security, and without security the agreement is worth nothing.

126. (Chairman.) May I interject to make the meaning clear? You were defending the Government of India against a possible charge of not fulfilling its obligations to the bank, but Lord Faber was asking as to whether the banks would be able to satisfy their engagements to the Government of India?—I see. Under existing circumstances and the existing agreements, the banks can fulfil their obligations. Since 1874 the only breeze which appears to have arisen was in 1888 or 1889, when an incident occurred, which is mentioned in the papers I have put in (see Appendix II., page 41). At present the banks can habitually fulfil their agreements and obligations to the Government.

127. (Lord Faber.) The Chairman, I think, has well put my point. My point is: Is an agreement worth anything? Security is, but is an agreement without security?—I am not sure that you do not overestimate, or that I have not led you to overestimate, the importance of this agreement. *Prima facie* the object of this agreement is to settle the remuneration of the banks. It is not really to settle the relations of the banks as banks, and the Government as depositors. The agreement settles such rather trivial points as whether the banks, say, shall have 800*l.* or 1,000*l.* a year, and from that point of view I quite agree with you that the agreements are not very important.

128. Then I will ask you three direct questions: Are the deposits with the Indian banks secured?—Do you mean the Government deposits?

129. Yes, the Government deposits. Have they security? Let me give you an instance: If the London County Council have a big deposit with a London bank, the London County Council get security from the bank. The banks do not like it, but so it is. Do the Government of India get specific security?—No, they are merely general depositors with no specific security.

130. Are the London balances which are lent out here lent on security when they are lent to banks in London? I know they are generally lent on security, but when you have deposits at banks in London do you take specific security from those banks?—I think that there have been one or two banks—I mean joint stock clearing banks—which gave security. But generally

the answer to your question is that the deposits are not against security; they are general deposits.

131. You were asked about loans to provincial governments. Merely as a banking question, I quite think, with the Chairman, that when the Government is under agreement to find cash for, say, Assam, they should mention it in their balance sheet to show that these balances are held subject to an agreement to lend Assam, or whoever it may be, half a million of money, or something of that sort?—But may I say this?—perhaps I did not make myself clear. All this information which, as you very truly say, ought to be in the government accounts, is there already.

132. Thank you. I did not understand that?—If it were of any interest to you—it probably is not—I could show you in any annual statement where the exact amount is given.

133. That was not quite clear to my mind. Government balances were increased, you told us, because a certain amount of money was not spent on railways which had been budgeted for. Can you tell us, for my information, why that was not spent on railways?—I am sorry to say that that is a subject of continual discussion. We are always asking railway companies why they do not spend all their amount. As a rule they say—I do not think they really mean it—that it is because the Government does not tell them early enough in the year how much there is to be at their disposal to enable them to make arrangements in time. There is a natural tendency, and it is quite proper, to put the blame for everything on to the Government in the first instance; but then they very often go on to say that this year there is a coal strike, another year there is a railway strike, which hinders the transport of material, and so on, or another year that the manufacturers are so full of orders that all the orders get delayed, perhaps two weeks or three weeks, and you get in April, that is to say, next year, what you ought to have got in March, this year. They are all the general explanations which I think would occur to anyone.

134. Not quite satisfactory from a business point of view, are they? I mean here in England we had a great coal strike last year, much bigger than they have ever had in India, and we still go on with our capital expenditure on railways?—Pardon me, these failures to spend up to the full amount occur to a great extent in England. If we want a locomotive, or rails, or bridge-work, or anything of that sort, for an Indian railway, we buy it in England. When I spoke of the coal strike I meant the English coal strike.

135. I should have thought there was much more delay in India in this thing than there was in England, for instance. However, I will not press that. I have very few more questions. For my information again, why is it more important to pay off bonds than bills? What is the difference between the two?—There is this difference: When you have a bond maturing, or, at any rate, the particular kind of bond to which I have referred, you really have to pay it off at its date. If you made efforts to renew this particular sort of bond, it would be a very curious thing indeed to do; but when you are dealing with India bills it is the most natural thing in the world, if it is not convenient to you to pay them off, to go on renewing them. The Treasury goes on renewing Treasury bills automatically until it happens to wish specifically to pay them off. Now, if I may, I will put in a word of explanation about these bonds. They are of two kinds. There were first of all a great number of debenture bonds that had been issued by various railway companies—the India Midland Railway, for example, or the Madras Railway—and while the railway continued in existence, it was the most natural thing to renew the debenture bonds from time to time on terms agreed between the holders and the railway company; but when the railway company goes out of existence there is really no one who can renew the bonds; the railway company is dead, and the Secretary of State has taken over its obligations, and it is for him, when a particular obligation matures, to meet it and to pay it off. He cannot go on renewing as the company would have done. Then the other sort of

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bonds that we have to deal with is what are called India bonds. We issued four million pounds. I think, half a million pounds to mature every year for eight years but it is part of the terms of issue that the holder is the holder of a gradually decreasing security, and that is a great advantage to the holder. If, having issued on those terms, we made terms for renewal with the holders of half a million pounds' worth that were due to be paid off in one year, that would be an odd thing to do, which you would not recommend.

136. I listen with great interest to what you say, but I should have thought that it did not matter two straws whether the Indian Government issued a bond or a bill; their security covers both, and they are both looked upon as A 1 securities in this country?—Yes, that is true, but it is a rather different point that I am making. Supposing that an India bill matured at a certain time, you would never think it odd that we should renew it if it were not convenient to us to pay it off.

137. Of course, you would be obliged to pay the bond off if the holder wanted it; I know that quite well?—Now let me put this point: Supposing, in respect of these India bonds of which I have been speaking, instead of paying off by lot at the right time, one went to the holder and said, "It is not convenient to us to pay what we have contracted to pay; cannot we make some private arrangement that we are not to pay?" it would surely be an odd, and in the technical sense—I do not mean in the moral sense—a discreditable proceeding, discreditable in the sense that it would not be good for our credit.

138. I am afraid I have troubled you at great length, but this is my last question. Should the Government do what the Chairman has called, and I think rightly called, all this banking business such as exchange, large deposits on security and unsecured, gold standard reserve, and all this gold coinage; should not that be done by what we should call the Bank of England in England? Should Government officials be called upon to carry out what is absolutely and wholly a trade in itself which takes a lifetime to learn?—I should like, if I might, to answer your points one by one, because what applies to one branch of business does not always apply to the other. I think you mentioned exchange.

139. I did?—And the amount of balances.

140. Yes, on security and unsecured: and then what is called the gold standard reserve and gold coinage?—May I very briefly answer them one by one, because, they are very different businesses. As regards exchange, it is done. I will not say automatically, but with so near an approach to automatism that I do not think there is very great advantage in the Government doing it. Although, as I say, I do not know whether the Secretary of State would agree with me or not, I do see certain advantages in transferring that business to a bank, if a bank can be established under suitable conditions. At some time I shall have an opportunity of mentioning why I think a great deal of Government control would be one of the conditions. As regards lending balances, here again, in my private judgment, your remark has its greatest force and applicability in its relation to that particular branch of business. As you know, a Government official, like me for example, can never acquire even a moderate knowledge of that sort of subject, and it is not desirable that any Government official should give his mind to it. He has other and different things to do: but, of course, you know that we have the great advantage of very distinguished bankers inside the India Office who do supplement the deficiency of the Government official in that way.

141. Will you tell me whether you think that in India there is scope to lend these great balances on gilt-edged securities? Can large balances be lent in India, or would it be better to transfer them to England? If you can do it in India it would be better, but can you?—You raise many big questions. If you suggest the advantage of transferring balances largely from India to England because they can be better lent in England, then I say you must not overlook the possibility that the lending of balances in India might be very useful at certain periods for

Indian trade, and if the Government of India could help Indian trade in that way without any risk of impropriety it would be an excellent thing.

142. I merely say can they do that, because at present you do not appear to be able to get security even, which astonishes me?—If your question is directed to this, that any such lending of Government balances can be better done through a bank than through a Government official—I do not know whether I am right in understanding that that is your point—

143. No, I am more on whether it is possible either for a Government bank or a Government official to lend large balances on security in India?—I think that that must be judged by experience. I can certainly say that the Government does deposit with the Presidency banks, to the great advantage of both parties, I should say, sums which I should call large—at any rate, appreciable sums.

144. But it does not carry out my fundamental principle. I said "on security"?—No, I do not know how far the Presidency bank would be prepared to give security. I should say probably, since it has enjoyed the balances for so many years without security, it would not like to change at this moment.

145. Thank you, I am much obliged?—May I just remark, in answer to a point of Lord Faber's, which we rather overlooked, that I see great force, naturally, in all that he says about the Government not being a suitable body to do exchange business, lending balances, and so on, but I do not think that applies to the other two points he mentioned, namely, the gold standard reserve and gold coinage.

146. (Sir Robert Chalmers.) Following up Lord Faber's question, if security were taken from the Presidency banks, that would be Indian securities of a rupee character?—The Presidency banks can, as a matter of fact, invest their funds in Consols and all sorts of things. I do not know if you are at all interested in the limitations of their business, and what they may do, and what they may not do. If you are I can tell you.

147. The point I want to be clear about is whether, if you get the security and hold it in considerable quantity, it would be possible to realise that security in an emergency?—No; in that Memorandum which the Secretary of State published,* he mentioned that point. One of the difficulties of lending on security in India is that if you had rupee paper and had great quantities of it, it would probably be difficult to realise it in an emergency. On the other hand, you must not, if I may say so, exaggerate the importance of that point, because, if you do your lending well, the occasions on which you do have to fall back on your security, or what some people call your collateral, are very very infrequent indeed. I think that Mr. Badock will tell you that in sixty years we have only had to do so about twice or three times in the India Office.

148. The object of the Government, either here or there, is not to create balances. The balances come to them, and they wish to keep the balances, as I understand from you, as low as they conveniently and reasonably can?—Yes.

149. That is so?—Ordinarily.

150. That applies to India and to London?—That is so, subject to this, that if you have in front of you a year with very large disbursements, you might like to open that year with a sum above your usual opening balance.

151. It is rather forced on you?—It is rather forced on you, yes.

152. But you do not create balances for their own sake?—Certainly not.

153. As a matter of economical working, especially as you are a borrowing authority, borrowing on bills, your object is to keep your balances down?—Yes, it is to keep the balances to the amount required, neither more nor less.

154. Required for your own purposes?—For the purposes of India.

155. For Government purposes?—That is so, yes.

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156. Therefore you do not like to have any balance generally available for lending out for the support of the market; that would be an incident?—Are you speaking now of the market in India?

157. Yes?—I do not think I would go quite so far as you. I think you have to realise this, that in India there are so many uncertainties, what with monsoons, which are apt to fail at the critical moment, that you do have to keep, and it is wise to keep, a rather liberal balance, a more liberal balance than you at the Treasury would keep, in view of the possibilities of bad times. Probably in five years out of six you would be able to lend something—I do not say on a great scale—if you so desired; and if you care for figures, which probably you do not wish to have, you will notice that in the reserve treasuries—they are what you might call the temporarily immobilised balances—there are appreciable sums, as a rule.

158. Of course, that would be the case in five years out of six?—Yes.

159. What about the sixth?—That, of course, is a very difficult point. If you were lending out of your Treasury balances, you might find in the sixth year, when everyone was very anxious to borrow from you, that you had a famine, and a frontier campaign, and difficulties of that sort; and that just at the moment when people wanted the money you could not let them have it; and I may say that that was one of my reasons for mentioning the paper currency reserve as a much more trustworthy source, if you are to lend at all, than the Treasury balances.

160. As to council bills and the removal of the duty of selling councils to a bank or banks, that would cost a little more?—Yes.

161. And so that would be popular with the recipients of the extra cost. What particular gain do you think would come from introducing banks into this business of selling councils?—The gains are not very substantial, but I think there are some. Just let me mention one or two. Of course, we in the India Office, as I dare say you realise, are not in any cowardly sense afraid of criticism. We often feel that we have to face adverse criticism in the discharge of our public duty, but *prima facie* if there are two methods of doing a piece of business, one of which may expose you to criticism, and if I may say so without disrespect, occasionally to partisan criticism—I mean party feeling even in Parliament is strong—and then there is another method of doing business which is likely to avoid that criticism, the second method has, so far as it goes, an advantage. If the Secretary of State sells five million pounds extra bills in the year there is always a possibility that he may be criticised. I do not say that it is very serious or that he would be much hurt by it. If the Bank of India, corresponding, say, to the Bank of Japan, sold five million extra bills in the same year, and in the same way, people would probably say, “Of course, these masterly bankers know their own business,” and there would be advantage in the avoidance of criticism. It is a point of perhaps much greater importance, that this selling of bills by the bank would go with the transfer of other Government business to a bank. I mean if it were a question of merely transferring to a bank the sale of council bills and nothing else, then the only advantage would be the one which I have mentioned, and on that account it would not be worth while doing it, but if you added to it the transfer to the bank of the lending of balances both in England and India and with certain other advantages, then the cumulative effect might be considerable.

162. It is rather a big question that I put to you next: What do you think is the relation of the Indian money market to the London money market? Is it subsidiary, or ancillary, or what?—It is extraordinarily difficult to tell. I should say, as far as I have been able to judge, that there is very little in the way of sending banking money from London to India in the same way that a rise or fall in the bank rate might cause a transfer of funds between London and

Paris, or London and Berlin possibly. I should say that except for their necessary connection as being countries which do trade with one another, the connection between them is extraordinarily slight, and much less than people expected 15 years ago when you and I had the privilege of listening to the discussions of the Fowler Committee. They then thought that there would be a continual flow of banking money, because a bank would say, “There is a good opportunity for getting a little more interest if we send our funds to India.” I do not think, as far as I can judge, that there is much of that.

163. Is “the Indian money market” a term which applies to traders with the West in the main? Does the Indian money market include the supply of funds for natives engaged in the ordinary operations of agriculture and trade, or is the latter domain really in the hands of entirely different people of a merchant character?—I should say, but of course Sir James Begbie knows a great deal better than I, that his bank would probably have a vast number of Indian customers. I should expect, though I do not know, that probably most of them were engaged in trade.

164. Parsees?—No, the Parsees, as you know, are a very tiny community. I should expect that the connection of the big Presidency banks with the natives of India was very widespread, and I would add that the Presidency banks lend on what you might almost call agricultural security. They had their powers enlarged so as to lend on estates which are under Government management, and so on. I think, so far as I follow the exact scope of your question, you regard what is generally called the Indian money market as having a much narrower scope than it actually has, but I say that subject to correction from people who get their knowledge on the spot.

165. So far as your observation and experience have gone, there is remarkably little connection to-day between the London money market and the Indian money market. Is that your opinion?—I am speaking of the special connection which I thought you had in mind, namely, the transfer of funds by bankers from one market to another in order to employ the funds more profitably. Of course, as you know, the sale of bills, not only council bills, but mercantile bills, is on an enormous scale, and in a sense each such sale is a bond of connection between the two money markets. But I do not think that is what you were referring to.

166. Do you think that in India there is a greater community than my question might have suggested between the financial interest of the ordinary agriculturist and the Anglo-Indian trader—that they all have reference to the same market, and that there is not a lower domain there where the Mahajan is dominant?—Now that you speak specially of agriculturists I should think that the agriculturist probably dealt with Indian financiers—

167. He would be outside what we have been previously calling the Indian money market?—Yes, I should think so.

168. Therefore it would come to this—that if you did, as you do not want to, accumulate large balances in India and lend them out to what is called the Indian money market, it would be a small section of the Indian interests and population which would be benefited?—I think that that, if I may say so, is almost—may I use the word—over-ingenious. May I just put what I think the answer would be from the point of view of a person who took the opposite view from you? He would say, It is quite true one lends to, one might almost say Sir Ernest Cable's firm, and Sir Ernest Cable is one individual European, but then that firm may go half over the Province of Bengal buying jute, or whatever that firm happens to buy, bringing happiness and prosperity to thousands, hundreds of thousands, millions, of producers; so that by making the operations of the European firm easier, you have very closely and beneficially affected vast quantities of the poorer Indian agricultural population.

The witness withdrew.

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Mr. LIONEL ABRAHAMS, C.B.

[Continued.]

At the India Office, Whitehall, S.W.

SECOND DAY.

Thursday, May 29, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.

Lord KILBRACKEN, G.C.B.

Sir ROBERT CHALMERS, K.C.B.

Sir ERNEST CABLE.

Sir SHAPURJI BURJORJI BROACHA.

Sir JAMES BEGBIE.

Mr. ROBERT WOODBURN GILLAN, C.S.I.

Mr. HENRY NEVILLE GLADSTONE.

Mr. JOHN MAYNARD KEYNES.

(Mr. BASIL P. BLACKETT (*Secretary*)).

Mr. LIONEL ABRAHAMS, C.B., recalled and further examined.

169. (*Sir Ernest Cable*.) You must have noticed the criticism from time to time of the Secretary of State's action in selling your bills below 1s. 4d.?—Yes.

170. You mentioned at the last meeting that this was sometimes done when it has been stated in letters to the Press it was unnecessary; perhaps you might like to make a statement on that point?—I do not think that it has been very much criticised, but I think that the considerations relating to it are these: When the Secretary of State has no great immediate necessity for selling bills, I mean when he has sold in the year up to his requirements for that part of the year, he need not and he does not sell below 1s. 4d., and in the last two or three years it has been a very exceptional thing to sell below 1s. 4d.; but, of course, there are times when it is very desirable that he should get home from India the money that he requires for his expenditure here, and it would be undesirable to set up very restrictive rules which might prevent him from selling bills to the extent that he needed. So he allows himself, and I think he ought to allow himself, some latitude; and the only serious question is, I think, whether you can define with any scientific precision what the latitude should be, so as not to leave it too much to the uncontrolled discretion of the Secretary of State. Really, I think you can define it with the utmost precision. The proper rule, I think, is that he should sell at such a price that it is more profitable to him to sell at that price than to take the possible alternative course of bringing gold home from India. If he bought sovereigns at the rate of 1s. 4l. for each rupee and then brought them home from India, paying about $\frac{1}{4}$ d. for the cost of freight and so on, he would get for each rupee about 1s. 3 $\frac{1}{4}$ d. net. What he actually does is never to sell cheaper than 1s. 3 $\frac{3}{4}$ d., so he allows himself no undue latitude, and it cannot be said that in any sense he is depreciating the rupee by selling at that price when his general circumstances make it desirable that he should get money home.

171. Throughout your evidence at the last meeting you rather implied that the Secretaries of State could not have borrowed more money than they did during the last few years, and that it was only, I think, owing to heavy surpluses that the necessary funds were provided for the development of the country. Of course, it is obvious that you cannot continue to count on these windfalls?—Quite so.

172. And the question, therefore, of raising more money by loan is becoming urgent?—Yes.

173. Have you considered the question of raising your interest to 4 per cent., because apparently it is impossible for you to raise more at present rates?—In a certain sense we have raised our rate of interest to more than 4 per cent. The latest issue that we made was an issue of Guaranteed Debenture Stock of the Madras and Southern Mahratta Railway, which was to all intents and purposes a Government issue. The nominal rate of interest was 4 per cent.,

and the issue price to the public was 99, so that we paid a trifle over 4 per cent. there. If you wish me to say anything generally on that subject, all I can say is this: The Secretary of State has for years been recognising that year by year he must pay a little more interest on the money that he borrows than he used to pay, and that it is to the advantage of India that he should not restrict his borrowing unduly in order to avoid this slight increase in the rate of interest. But what he has felt, and it is really the most difficult and important branch of Indian finance, is that he must not be too forward to borrow great sums so as to make the value of his stock go down with great rapidity or to make the rate of interest go up with too great rapidity—the two things come to the same; because if he did so, I am afraid he would make his stock so extraordinarily unpopular with people who have bought it at one price and found it has gone down 10, 20, or 30 points, that he would not really increase the supply of capital in India. If you go on following that path long enough and steadily enough, you may find yourself the object almost of a boycott.

174. The only thing is that the sterling price of Indian securities just returns about 4 per cent., or slightly under now, does it not?—Yes.

175. So present stocks would not be depreciated if you issued a new stock at 4 per cent.?—Of course, you have banking authorities here. I should say, to take a rather big case, supposing we issued a 10 million loan on the 4 per cent. basis, you would see in the newspapers for several days, "India Stocks were very easy"; and if one did it two or three years in succession, India stocks would be very easy indeed.

176. I only brought it to your attention because this is one of the great needs—to secure money for the development of India?—Yes; I cordially agree with you. The difficulties are very great, and we never overlook them in the India Office, and we are quite with you that it is one of the great needs of India to get money for development.

177. You were saying in your evidence at the last sitting that the Secretary of State in selling his bills was careful not to hinder the net absorption of gold by the people. Referring to paragraph 40 of Appendix I, it seems to me that you have there estimated the probable consumption for the future almost entirely on the basis of the past. You have taken an average of the past. Do you think that is a correct way?—You must not, please, attach too much importance in the way of precision to those few lines at the end of my memorandum. What I wanted to bring out, and what the figures do bring out, is that there is a very large stock of gold in the Government Treasuries in India at the disposal of the public if they care to have it. I said that this sum of round about 20 millions is a 2 $\frac{1}{2}$ years' supply on the basis of the average for four years. Supposing that one disregards

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[Continued.]

that altogether, and says that on the basis of the demand in 1912-3 we had at the end of the year considerably over 1½ years' supply, that would be equally effective for the particular purpose for which I made the statement, and it would meet your criticism.

178. I suppose the India Office would agree that one must not run that too fine; you do not want to prevent gold from going to the people, do you?—You do not want to prevent that. The India Office has always been anxious that among other things it should facilitate the sending of gold to India so that the people who want it may get it. But I would say this—that other needs are greater and more important than the supply of gold for use as currency in India; I mean, supposing there were a conflict between that interest and the other interest of having money here to be spent on railway capital purposes, I should say that so far as there was a conflict the latter ought to prevail.

179. In paragraph 30 (2) of Appendix I. you state that the restriction of the sale of Council Bills and the consequent export of gold would adversely affect the balance of trade; perhaps you will explain how that would happen?—What I specially had in mind was that, if great amounts of gold were taken out of the Bank of England and off the London money market with the effect of stiffening up rates here and creating a stringency—perhaps even more than a stringency—I do think that Indian trade would be injured in a number of ways. To take one very obvious method in which it might be injured: When the Indian exchange banks had their bills to discount in London, which you know is one of their ways of supplying funds for themselves, if they found they had to discount at 7 per cent. instead of 3 per cent., they would be less willing to discount and less eager to buy export bills in India and less eager to use their money in India for trade purposes generally; and there would be what I may call an application of the brake to the wheels of Indian trade generally. I think that what I say is in no way paradoxical, and I think most people would hold that that is the case.

180. It is so, of course; but it does make Indian trade rather dependent on the convenience of the London money market?—In a sense; but not in the invidious sense. I should say rather that Indian trade depends, among other things, on the convenience of the customers of the Indian merchant. You may regard Great Britain as one of the great customers of the Indian merchant, and if you do something which rather hinders the customer you rather hinder the seller as well.

181. I do not suppose our other Colonies take such an interest in matters of that sort, do they? You are guarding commerce here rather too much. There is one other thing I should like you to answer. In your evidence I rather gathered that you are against lending surplus funds to the Presidency banks in India; is that so?—I did not wish to give that impression. I always feel that there is so much to be said on both sides that I can be more helpful, at least, I hope I could be more helpful to the Commission by putting before them the facts and the considerations on both sides than by giving an opinion of my own. My own personal prepossession is in favour of the Government being rather liberal in this matter; and I feel very much, when you have, say, 20 crores locked up in the Government Treasuries in Bombay and Calcutta, and then in Bombay and Calcutta there is a bank rate prevailing of 8 per cent. or 9 per cent. and a difficulty in getting accommodation even at that rate, that it is not quite easy to put in a perfectly satisfactory defence of the holding up of these large sums of money. On the other hand, I recognise the difficulties which the Government have always felt about largely increasing their deposits with the Presidency banks.

182. I think I understood you to say that you were preparing a statement for this Commission on the subject of State banks?—That is so.

183. In doing that, would you kindly mention what economies you expect the Government of India to make

in the way of their own establishment and so on when they hand this work over?—I will mention that. As a matter of fact, I do not think there will be any economy in that particular respect. I shall probably take the advantage myself of consulting Mr. Gillan on the subject before I write my note; but I do not think there will be much in it.

184. (Mr. Gladstone.) Lord Faber, I think, made some reference to the Government accounts with the Presidency banks, and as to there being no security; it is a fact, is it not, that there are special restrictions and safeguards as to the working of the Presidency banks under special Acts?—Yes; and one might almost say rather onerous restrictions. I do not know whether any member of the Commission would like to go through that with me. I did not put it in my statement because I did not want to make it too long, but of course the Commission can have copies of the Presidency Banks Acts—we have numerous copies in the office; and if Mr. Brunyate's memorandum* is circulated also, then you will see what those restrictions are. I may say that among some papers which the Chairman said he would like to have are some papers regarding a discussion as to the removal of one particular set of restrictions—the restrictions on dealing in foreign exchanges.

185. (Chairman.) Will you put in a paper† to show us what the character of those restrictions is?—Yes.

186. And also Mr. Brunyate's memorandum which you spoke of?—Yes, I assume you would like at least those two circulated, but I suppose you would scarcely want copies of the actual Acts, because there is so much that is mere machinery set forth in them.

187. It would be more convenient for the Commission if somebody under your directions would extract what is essential for us instead of giving us the whole of the Acts?—That shall be done.

188. (Mr. Gladstone.) Is it not the case that the banks in return for the Government accounts do much work for the Government in connection with the Treasuries and other things for nominal remuneration?—Yes; in fact I should put it this way—that the advantages which the Presidency banks get are partly, not entirely, to be regarded as remuneration for work done.

189. (Lord Faber.) The figures that you were good enough to set out showed to me as a banker that the banks are well paid, in fact better paid than some of the banks in London?—May I just interpolate this? The view that has always been taken by the Presidency banks is that the advantages which they get are partly remuneration for the work they do, and partly—if I may go back to an ancient controversy—compensation for the withdrawal from them in the '60's of the right to have a note issue.

190. (Mr. Gladstone.) In a lesser degree, a much lesser degree, the Presidency banks act in India in relation to the Government of India as the Bank of England does to the Government here; for instance, they attend to the Public Debt?—Yes.

191. And they receive special remuneration for that?—Yes. As far as I can judge, I should think they are fairly well paid for managing the Public Debt. I do not know whether Sir James Begbie would agree, but there is a special section of their remuneration for that specific work.

192. (Sir James Begbie.) That is not included in the figures you have given, I think?—No, because I did not think that had much bearing on the particular subject of my memorandum.

193. (Mr. Gladstone.) My question was really asked in order to draw attention to the status of the banks, which is something different to that of ordinary banks?—Certainly.

194. They are more on the status of the Bank of England than on that of any other bank?—Yes. They are the trusted and valuable agents of the Government for very important purposes. That is your main point, I think?

* An account of the Presidency Banks, published by the Government Press, Calcutta, 1900.

† See Appendix XIII., page 336.

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[Continued.]

195. Yes. With regard to the State Bank I understand there have been two propositions; one is the amalgamation and strengthening of the three existing Presidency banks to be carried on very much on the same lines as at present; and another proposal that has been put forward is that the State Bank should have a London office, and I understand that the London office of that State Bank would do a great deal of the work that the India Office now does?—Perhaps I ought to guard myself in this way: When the subject was discussed about 14 years ago the view then taken was that it would be possible perhaps merely to amalgamate the three banks and do nothing further, and it was to some extent on that basis that the discussion proceeded. Speaking quite as an individual and not speaking for the Secretary of State I have been thinking over it a good deal of late, and the more I think over it the less I feel that any scheme which was a mere amalgamation of the three banks would be practical. I fancy that when once the amalgamation came under discussion a further extension of the scheme would probably have to be considered, and would be held by many people to be an integral and necessary part of it. It is only, I think, in that sense that you can say that there is a scheme for extending the original plan.

196. You would recognise, for instance, that the exchange banks would be likely to object very strongly to the Government Bank being allowed to do exchange business, and therefore I assume there would be less opposition to the amalgamation and strengthening of the three Presidency banks on existing lines than there would be to the other proposal?—Yes. I think it is fair to say that there are many ways in which a State Bank would do exchange business. Of course the widest way and the way that the existing exchange banks would most object to would be if the State Bank bought export bills in order to get money in London, and then bought import bills in order to send money back again, and then really went in for exchange business in a very large way. But it is equally possible for a State Bank, if constituted, to do very much what the Secretary of State now does, that is to say, merely to sell remittances on India, bills of exchange on India, to be met from their own funds and to sell them by competition in the same way as we sell Council Bills to the exchange banks now.

197. With regard to the loans given out in London by the Secretary of State, I understand that in the first instance loans are made to approved names against security?—Yes.

198. And that recently it was only when that power was exhausted that large deposits were put with the London joint stock banks without security?—Yes, as a temporary measure. It was always understood as being temporary.

199. Of course you are aware that in the City of London it is quite common for banks and private individuals to put very large sums, hundreds of thousands of pounds, on deposit with the joint stock banks without security?—Yes. I think the instances to the contrary are very few. Lord Faber, I think, quoted one on Tuesday. I do not think there are many cases in which a bank would give security; I mean, it would say, we have depositors for many millions of pounds, and we cannot allow a particular depositor merely because he has a little more than other people to have a specially secured and preferential position. That is their reasoned ground of opposition, I think.

200. Very often there is a difference in the rate of interest if security is given?—Do you imply that security is often given?

201. No, I do not wish to do that?—I should say that generally security is not given.

202. I quite agree. Some reference has been made to the decline in Indian credit. I have a few figures here from the Stock Exchange Official Intelligence which are very short, and which I think it is rather important to bring out. I am sure you realise that, whilst the fall in sterling $3\frac{1}{2}$ per Cent. India Stock from the top of the wave in 1896 to the present date is 32 points roundly, or 26 per cent, the fall for the enfaced $3\frac{1}{2}$ per cent. rupee paper for the same period is only $2\frac{1}{2}$ per cent.?—I have not those exact figures, but of course I am familiar with and very

much interested in the fact that rupee paper has not fallen to anything like the extent as India sterling stock.

203. Whilst the $3\frac{1}{2}$ per Cent. sterling Indian Loan in 1896 returned on the highest price of the year 2·87, and at that time enfaced rupee paper returned 3·53, the figures now are Indian sterling $3\frac{1}{2}$ per cent. Loan 3·93 and enfaced rupee paper 3·73. So instead of its being at the present moment more expensive to borrow in India than in England, as it used to be, it is much cheaper on those figures to borrow in India?—Quite so.

204. Of course, I recognise that India is looked upon as a limited market, but I would suggest that the market is less limited than it was, that the country has had prosperous years, that there is less hoarding now than there used to be, and that the natives generally are more inclined to invest in Government securities?—I think what you say is very valuable, and you will readily understand that it is a matter which is frequently discussed between the Secretary of State and the Government of India. You will notice in one of our papers there is a sentence containing a good deal of very sound doctrine. The Secretary of State said on one occasion to the Government of India, you must accept my views about what loans can be issued in England, and I am very much inclined to accept your views about what loans can be issued in India. That doctrine has a good deal of application to the facts that you were just mentioning.

205. With regard to the decline in Indian credit, may I point out that, taking the top of the wave again—1896—whilst Consols have fallen 38 points, or 34 per cent., and, as an instance of a gilt-edged security, London and North-Western Railway 3 per cent. debentures have in the same period fallen 45 points, or 36 per cent., India $3\frac{1}{2}$ per Cent. sterling stock has only fallen 32 points, or 26 per cent. That does not seem to show that there is any decline in the credit of India other than what may be due to general market conditions?—As I said to Lord Faber at the last meeting, I am the last person in the world to controvert any optimistic proposition of that sort, but the sort of fact that I have been in the habit of noticing is this: You remember I said to Lord Faber that India stock used to be about half-way between Local Loans stock and County Council stock of the same denomination—they were all 3 per cent. stocks in those days. There was usually for some reason a difference of about 10 points between Local Loans and London County Council stock, and then India was 5 points below the one and 5 points above the other. Now India has gone down. I am sorry to say, to about the County Council level, I took that comparison merely because those three stocks are more of the same sort; they are more, to put it technically, in the same market than perhaps some of those that you quote.

206. I think I ought perhaps to say that I did leave out the County Council stock, where the fall has not been so great as it has been in railway debentures; but I do not see that you can take a better guide than the best gilt-edged railway debentures, as they are not open to the same considerations which affect Consols?—I think as regards what is in your mind we are very much at one. I gather that you wish to emphasise that we ought not to be too much afraid of borrowing; that we ought not to be too much depressed by the fall in our stocks, and that we ought not to check India's development for those reasons. I am quite with you there.

207. (Lord Kilbracken.) The expression "declining credit" has been used of India; do you accept that expression?—No; I am very glad you intervened. It is a phrase that people use, but I would much rather speak in plain simple language of the fall in the price of India stock. I did not like to call attention to it, because there were other things.

208. (Mr. Gladstone.) That is what I really wished to bring out. On the question of loans from the Government of India to the Presidency banks, on which Sir Ernest Cable has put one or two questions, you have informed us that the Presidency banks have

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[Continued.]

made no requests for loans during the last seven years, and you assume, and I agree with you, that this is because interest at Bank rate was demanded against loans on security by the Government?—That it would have been demanded?

209. Presumably. I would submit that the Presidency banks do not care to borrow to lend again on the best gilt-edged security without any margin to themselves?—I think that is a very fair point, if I may answer your question in that way. You have not forgotten that passage which I read from the Bank of Bengal's letter, where the Bank of Bengal said that they do not want any profit and merely wish to seek the convenience of the Indian money market (paragraph 15 (1) of Appendix I, page 4).

210. I had forgotten that at the moment, but still I can see that would not be business, and they are accustomed to lend as freely as they possibly can at bank rate almost to any extent against Government securities?—Yes.

211. If they asked a higher rate—I am speaking from positive experience as far as the Bank of Bengal is concerned—I think it would be very much remarked on; therefore they are practically limited to asking the bank rate on securities of that kind?—I dare say it is as you say, that if the Government had made a difference of 1 per cent. in the rate on which they lent to the Presidency banks, the Presidency banks would have been much keener on taking loans.

212. Do you not think, if it is decided to grant such loans under special conditions, that 1 per cent. below the bank rate might be granted in order to make the relief effective?—That sounds *prima facie* reasonable; but if we were discussing that in the India Office our first step would be to ascertain the opinion of the Government of India, and anything that I say is subject to what the Government of India would think on such a matter.

213. It is admitted that times of pressure for money constantly occur in India, and usually at the same period of the year, when exports are most active, and when it so happens that the Treasury balances are at their maximum. That is set forth, I think, on pages 40 and 52 of Appendix II.*—I do not know whether the pressure comes most when the export trade is most active, or just before the time of its greatest activity.

214. It has been suggested that at such times of pressure, when Government resources admit, loans on interest against security might be made to the Presidency banks from the Paper Currency Reserve?—That was suggested in about 1899 or 1900, I think it was, by the Bank of Bengal, and it was supported by the Bank of Madras. I ventured to make some observations on it in my memorandum.

215. I gather that you personally would favour this course with the qualification, if the strength of the banks is held to be sufficient to justify such loans?—Yes. I should like to repeat here, if I do not repeat it too often, that that does not come from the Secretary of State, but that it comes from me, and you must not regard it as authoritative. The obvious advantage, which, of course, you see, is that it is a much more stable and trustworthy fund from which loans can be given.

216. Might not any risk to Government be provided against by maintaining an effective margin, perhaps as much as 5 per cent. between the amount of the loans and the market value of the security?—Of course that guards you against loss, but it does not guard you against the risk of not getting back your money at the right moment, which is often just as important. To have your money tied up in securities which are sure to be worth their value three months hence, when you want your money to-morrow, is not always a satisfactory position.

217. On the question of the strength of the Presidency banks, I understand that the India Office lends freely when it suits them to exchange banks in London against security?—Yes.

218. Presumably, therefore, these banks in India, and all the more the Presidency banks, are strong enough to justify such loans against security?—I have mentioned in paragraph 17 (3) of Appendix I. that Sir Guy Fleetwood Wilson had a discussion

with the exchange banks as to whether they would like to borrow money from the Government of India. They said—this was the impression made on his mind—that they were not keen on it. The explanation is in a sense fairly simple—that, if they can borrow in London from the Secretary of State at London rates, which might be, say, $3\frac{1}{2}$ per cent., they would not be much attracted by the idea of borrowing the same amount of money in India at Indian rates, or 6 per cent. I do not know if that is the only explanation, but it seems to me a very plausible one.

219. My question was meant to show that the standing and the strength of the Presidency banks in India at the present moment is such as to justify loans against security on special occasions?—Yes. Of course you have to bear in mind that it is a question, not of loans, but of additional loans. If you have deposited two millions with a particular bank, and it is a very strong bank, then the question of depositing a third million is not quite the same as if it were a question of depositing the first million.

220. I quite follow that. I would like to ask you a few questions now on the Treasury balances in India. We have before us the Government of India's resolution of January 19, 1876, as to the management and economising of the Treasury balances (page 35, Appendix II.); we also have Sir James Westland's memorandum of November 20, 1888, sent in the Government of India's letter to the Bombay Chamber of Commerce of January 12, 1889 (pp. 42-7 of Appendix II.). Are there any such later resolutions and reports to guide us as to the system and what is being done at the present time—I refer to the detailed working of the treasuries?—For a couple of years I think the Comptroller-General—probably Mr. Gillan was Comptroller-General at the time—issued a summary of the resource operations of the Government of India and the management of balances during the year, and some sort of information on that subject is given in the annual report of the Paper Currency Department. I do not think that you would have anything else in so general a form.

221. (Mr. Gillan.) That is only an annual report of course. There is a manual of the Comptroller-General's office which, as far as I know, contains the latest résumé of instructions on the points that Mr. Gladstone is asking you about. I do not know whether that is available here or not?—I am not sure, but I will see.

222. (Mr. Gladstone.) What I should like, if possible, would be, not a mere résumé, but something to enable an expert like Sir James Begbie, for instance, to look into the actual daily working of the treasuries. I do not see how we are to form any independent opinion as to the balances in India unless we are made aware of the exact daily conditions, say, in one or two representative treasuries, large and small, and of the practice; but perhaps that is a question which ought to be asked of the Indian witnesses?—I think so.

223. I would like to ask whether you do not consider that the general conditions have greatly changed in India during the last 25 years?—They have enormously changed. For one thing you will notice that the proportion of private deposits to Government deposits in the Presidency banks has gone up very greatly. I would not say that makes all this doctrine of 1874 and 1876 obsolete, but at any rate it has taken away some of its applicability.

224. I think you referred to the balances which Sir James Westland named of 8 crores, and stated that the assumption was that nothing of that kind could be faced now with the increased revenues, and so on, and the responsibilities of the Government. With the enormous extensions of railways and telegraphs and wireless, could not greater economy be exercised by more direct central control of the treasuries and daily returns of receipt and expenditure by wire, much as traffic over a long length of railway is directed from one central point always by wire?—I should say that

* Office Manual of the Comptroller-General, published by the office of the Superintendent of Government Printing, Calcutta, 1900.

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[Continued.]

is a question whether the Comptroller-General from time to time does his work with the greatest amount of efficiency. Quite apart from the fact that a late Comptroller-General is here, I have always thought that that kind of work, what they call in India resource work, that is, the work of putting Government money where it is wanted, is extremely well done so far as I can judge from such limited information on the subject as reaches the India Office.

225. I think you are aware that, apart from those who have special knowledge of India, our highest financial authorities are inclined to doubt whether these large balances in India are necessary?—If you are speaking of such balances as were held on March 31, 1913, in India, which were exceptionally high, owing to a number of causes with which you are familiar, then there is no doubt those balances were unnecessary.

226. I quite follow that the conditions were exceptional with regard to those, but I refer more to the ordinary balances which I understand are 12 or 14 crores, or something of that kind?—I should say that on March 31 in a normal year the balances in India would be about 18 crores.

227. The total Treasury balances?—The total Treasury balances, including the amounts held on behalf of the treasuries in the Presidency banks, would be between 18 and 19 crores on March 31. I would like to say, if I may, that it is very difficult for an eminent English financier to give a valuable opinion as to the exact amount that ought to be held in Indian Government treasuries at any time.

● 228. I entirely agree with that, and I do not know that they would go so far as to give opinions; they would not without studying the conditions. I only meant that at first sight they find it difficult to understand how it can be necessary under modern conditions to keep these enormous balances in India. I am really referring to the average balances, and I am not dealing so much with what you end up with on March 31?—You will notice that in Statement C. in Appendix II. on page 76, the figures are given for four quarterly dates in certain years. One can give that information month by month or for a larger number of years if you wish.

229. I am satisfied with that information, but I should like to see what I consider those large balances justified by a closer examination into, as I said, the weekly and daily working of representative treasuries?—I think you must fall back on the Indian witnesses for that.

230. You mentioned, I think, that the disposal of the Council bills might possibly be done under better conditions by a bank than by the Government?—Did I say under better conditions? As well, I ought to have said.

231. Then as well, for a reason which you explained. Is not this important branch absolutely bound up with the question of the Treasury balances in India, the Paper Currency Reserve, and the gold standard—it all forms part of the same problem?—I would answer that question in the affirmative; but as regards our inferences from it, I am not sure that we should agree. I gather that your inference is that it must remain a piece of Government business as distinct from a bank business. My inference would be that if you do hand over to a very large extent the Government balances in India to a bank, that same bank in its English branch would have to have something to do with the selling of remittances, merely because, as you say, the two branches of business are so closely allied.

232. Do you consider that any unofficial institution could deal as effectively with these very large questions as the Government?—No. I thought I was rather careful to say, when I committed myself to the view that I rather liked, in some aspects, the idea of a great State bank, that it would have to be very much under Government control, or at any rate working in such close co-operation with the Government that it would amount to Government control; and as far as I can tell, unless that condition were satisfied, the scheme would be impossible.

233. Might I ask, as a last question, whether it is not your belief that the present system on the whole

satisfies the interests of the public best, and are not those trading with India generally of this opinion?—I might almost say that modesty forbids me to answer that in the affirmative. I think I might say that the public ought to be well satisfied, but if you would allow me, I should like to give you the result, very briefly, of the inquiry that we made on the subject. Some time ago the Secretary of State asked the Government of India, among other things, whether they had received representations in India against the present system of selling Council bills, and so on, especially representations in favour of restricting them, which you know is the chief measure which has been suggested. The Government of India said, with regard to the restriction of Council bills, it has always been urged by Mr. Webb—whose name I expect is familiar to you—that they should be limited to the amount required to meet your home charges, and he made certain representations, which they rehearse. So far as we can trace, no other representations on this subject have been made within the period mentioned by the Secretary of State—that was 10 years. They say in the passage which I think I have already read, that they think, though improvements may from time to time be made, the practice, in their opinion, is generally sound. So I think you are right in saying, and I am grateful to you for bringing it out, that in spite of the strong remarks that one has occasionally seen in the newspapers, the present system is regarded with general satisfaction. I think that if you put those kind of questions to the representatives of the Chambers of Commerce in India, who will doubtless come here, you will get a similar answer.

234. (Mr. Keynes.) You have given as one of the reasons for the high level to which the balances reach from time to time the difficulty of accurately budgeting in a country subject to such conditions as exist in India, and in paragraph 24 (1) of Appendix I. you point out that in March, when the Budget is prepared, it is particularly difficult to know accurately what revenue can be expected. Has it ever been considered whether that could be partially remedied by removing the end of the financial year, say, to September, when the season which would be covered by the year being budgeted for could be more easily forecasted?—There are some questions which are always being considered at intervals of 10 years or so in India, and the question of altering the financial year you will find was considered in 1864, by the Select Committee of 1873, by Lord Welby's Royal Commission of 1895, and so on. I think it has been considered, not with reference to a September-to-August year, but with reference to a calendar year. If it were a calendar year, I think, from the purely Budget point of view, it would be a better year, because you would start your Budget in January and you would know pretty well where you were until, say, June or July, by which time, if the monsoon were going to give trouble, it would begin to do so. So that you would have six or seven months of certainty, or comparative certainty, and then five or six months of uncertainty; whereas at present you budget from April, and you have only three months of comparative certainty and nine months of comparative uncertainty. Therefore, from the purely Budget point of view I think a change would be advantageous. But—and I have often discussed it with colleagues of mine with great experience of India—it would throw out the administrative work of all sorts of departments in the Government of India and in the provincial governments so seriously that I think it is a change that is not likely to be made, in spite of the Budget advantage that it might possess.

235. I can quite understand that the change would be very troublesome; but you are saying in effect that if the change were once made it would be an advantage to the Budget, and your argument against it is the difficulty of making the change?—No, I am not saying that; I oppose it on stronger ground. Let me put it in a more definite way. Supposing that one had a January-to-December year, which would seem to be the natural alternative to an April-to-March year, then the Budget work would have to be prepared, and a good deal of other work would have to be done, in government offices probably in November and December before the Budget came on. Now, many

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colleagues of mine with Indian experience say that it is most important that high officers of one sort and another should be able to tour about India, or tour about their provinces, in the months of November and December because they are the best months in the year for that open air and itinerant work. Of course here I speak subject to correction from those with Indian experience; but I think that is a serious obstacle.

236. In the case of the September-to-August year, what would your feeling be about that?—I had not thought over it, and I do not really like to say without thinking. Perhaps if there is another opportunity you might ask me later.

237. But you would agree that from the point of view of accurate budgeting March is almost the worst month you could take?—Yes, I think you are right. The worst month you could take, I suppose, would be May, but roughly what you say is correct, I think.

238. I do not know whether this is to the point at all, but in paragraph 30 (4) of Appendix I. you point out that the capital transactions in England are apt to occur immediately after the end of the financial year, and therefore the closing balances at the end of March give a misleading appearance because they omit to take account of the pending capital transactions?—That is so. Another thing they may do, which has caused much more misunderstanding, is that if one has raised a loan, say, a week before the end of March, then in a series of annual figures showing the balance on March 31 you see against that particular year a very high balance, and the reader does not realise that it is an accidentally high balance.

239. Therefore from the point of view of tidy account-keeping, March is an inconvenient time of the year from the point of view of the India Office?—From some points of view it is, and also you might say that it is really in the middle of a critical period of the year when changes may take place in very large amounts in one week.

240. The next point I wish to ask is in connection with a question raised by Sir Robert Chalmers about the connection between the Indian and London money markets. You rather suggested in your reply, I think, that the connection was not close, and I suppose everybody would agree that there was no mathematical connection and that the rate of money in India was determined by many other things in addition to the London bank rate?—Yes.

241. Would you not say that when there is considerable pressure in India the extent to which remittances are sent there depends upon the London bank rate?—I think they are affected to some extent by the London bank rate, but the point which I am not sure whether Sir Robert Chalmers had in mind, and I am not sure whether you have in mind, is this—they are rather two points. In the first place, pressure may come in India through causes which are not likely to be relieved by the sale of Council bills. One so often thinks that the sale of Council bills is the natural way of relieving stringency in the Indian money market. So far as the stringency is due to great demands for the steadily progressive export trade, I have no doubt that the common view is correct; but the stringency may be due to this kind of thing; a firm buys jute, for example, on borrowed money from the Bank of Bengal, or cotton on money borrowed from the Bank of Bombay, and is not able to pay back the loans it has taken from the bank until it has sold its finished article. Supposing that either the manufacturer is holding out for high prices, or the purchaser in Japan or the Argentine is rather slow in coming forward, the period over which such loans extend, that is to say, the period until the actual sale for export is made, may be prolonged to an unusual extent. That causes a certain amount of stringency, and so long as it goes on it is very difficult to see how it can be relieved by the sale of Council bills, because no export bills are created against the export until the export is actually arranged for. I hope I have not been too technical, but I think that is one reason against assuming that when there is a stringency in India it is likely to be relieved soon from London.

Then there is another fact which perhaps you are not aware of. Of course you are aware that the exchange banks do, as far as I can tell, a certain amount of business in the way of importing capital for banking purposes; but they do not do very much, as I gather, of such business, and the Presidency banks are not allowed—they have been asking for many years to be allowed—to import capital to be used temporarily for banking purposes, the Secretary of State never having seen his way to grant that permission. No doubt you will be much interested in the papers on the subject that you will see. That restriction no doubt has a good deal to do with preventing banking money from being imported into India at the moment of stringency, and therefore it prevents this equalisation, or this approximation, that you might expect between the London and the Indian bank rates.

242. (Chairman.) What do you mean by saying that the Presidency banks are not allowed to import capital into India for banking purposes?—Perhaps I might put it in this way; I will not take you through the clauses, because that would make it rather long. The Presidency banks came into existence in India, they raise their capital in India, they buy stocks, and so on, in India, and they may raise further moneys in certain ways, all in India. From time to time they have said to the Government of India: "Supposing that we could take a certain portion of our securities and pledge them as security for loans, say from the Bank of England, or from some great English banking institution"—I will not go into the technicalities of it—"we should be able temporarily to increase the capital that we are able to lend to our customers in India." You will see from the papers* that are going to be given to the Commission that the Secretary of State has always, for quite a number of reasons, objected to that change, so the Presidency banks are, as it were, closed up in India, and have no access to any country outside, except Ceylon, which is inconsiderable.

243. What the Secretary of State has objected to is the removal of the securities held by the bank from India to London, and their being pledged in London; is that so?—He has objected to the Presidency banks borrowing in London from a London lender.

244. (Sir Robert Chalmers.) Is that only as regards the Bank of England? Is it not open to the Presidency banks to receive deposits in London?—No; in fact, I may say that the Presidency banks have never asked to be allowed to do that. That would really change their character very completely.

245. (Mr. Gladstone.) Would not the answer be that the Presidency banks must not compete in exchange operations, and they are prohibited from doing so?—That is rather a gloss on my meaning.

246. (Sir James Begbie.) They are not allowed to borrow in London independent of the exchange business?—I will tell you why I should not accept Mr. Gladstone's gloss on what I said, if I may. You will find from the papers* when they are submitted to you, that the Presidency banks have always said, and I am quite sure *bonâ fide*, that they do not wish to compete with the exchange banks in exchange business; they merely want to borrow in London in order to relieve the Indian money markets.

247. (Mr. Keynes.) To come back to the point from which we began, it is the case, is it not, that the exchange banks lend a great deal of money in India on loans or advances, and do not engage all their funds in foreign bills?—No doubt when they have money in India they do that. I hope you will ask the representatives of the exchange banks whether it is their habit to send out money to India in order to be employed in that way.

248. My point rather is this, that the effective rate for money in London determines how much it is worth while for the exchange banks to expend on the purchase of Council bills; those Council bills put them in funds in India, and I should not suppose that they would make up their minds until the last moment whether it would be most profitable to use those funds that they get in India in buying more foreign bills which could

* See Appendix XV., page 355.

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be discounted in London, or in making direct advances; and I should be surprised, therefore, if the rate at which business in bills could be done were very different from the rate at which advances would be made on a similar sort of security. I would like to know if you are intending to deal with that in your answer?—My view about the way that the exchange banks do their business is, I think, rather different from yours. I think primarily the exchange bank regards it as its business to buy bills as cheap as it can, and then in due course to collect the money or to discount the bill at as favourable rates as it can. I should say that the exchange banks generally regard the loaning part of their business as very subsidiary. I believe it becomes more and more important, but I think even now it is still a subsidiary branch of their business.

249. Is it your opinion that the rate for bills in India might differ appreciably more than it does in England from the rate for advances on similar security and for similar periods of time?—I am inclined to think that it might, but it is so purely a technical question of the actual working of the particular set of banks that I think it would be well to ask the representatives of the banks.

250. Mr. Gladstone, I think, drew attention to the remarks that you made in paragraph 17 (3) of Appendix I., with regard to lending to exchange banks in India, and he pointed out that a good deal was already lent to them in London. I should like to know about how much that has been in recent years?—I have a statement here in case it is interesting to the Commission, but, if you will allow me, I will not read much of it because you cannot take in a great number of figures when they are merely read out. The important point is this: There are five exchange banks which borrow from the Secretary of State. I have had taken out for me the amount of the outstanding loans to each bank shown in the last weekly statement for each month in 1912-3; then we have added up the total and divided that by 12, which gives in a rough way the average amount of India Office money held by the exchange banks. Those averages for 1912-3 are: the Chartered Bank of India, Australia, and China, 450,000l.; the Eastern Bank, 70,000l.; the Hong Kong and Shanghai Banking Corporation, 180,000l.; the Mercantile Bank of India, 220,000l.; the National Bank of India, 470,000l. The total of those five is 1,390,000l. Of course, you can have the information in much more detail.

251. What was the highest total, apart from the average, in any week?—The highest of these figures that I have before me is 1,900,000l. at the end of December 1912, but in weeks which do not happen to be the last week of a month there may have been higher figures.

252. The average, you say, was about 1,400,000l.?—That is right.

253. So that they get very large sums?—Yes, very.

254. Large in proportion to their resources in London?—I would not say in proportion to their resources, as they have very great resources. Still, there are the sums, and whether one calls them large or small is a matter of judgment.

255. If these funds were lent to the exchange banks in terms of rupees instead of in terms of sterling would it be possible to get a higher rate of interest, do you expect?—I do not know. I should have thought, but I speak with great diffidence of an institution like the Hong Kong and Shanghai Banking Corporation, that if it did not borrow money from the India Office it would borrow money from someone else in London on as good terms, or nearly as good terms. You see, they are very strong banks, and in good credit.

256. You would not say that in regard to this particular kind of loan the India Office was in a predominant position?—I do not think so. Of course, you have Lord Faber here, who knows much more about banking than I do. The Eastern Bank, as you know, is rather a new one, but I should say that if one of these old-established exchange banks, which have connections, some of them, all over the British Empire and beyond, wanted to borrow half a million or a quarter of a million of money in London, and could

not go to the India Office, they would probably have no difficulty in getting it somewhere else.

257. At substantially similar rates?—I should think so. Of course, I would not dogmatise, but that is my impression.

258. If this sum is lent them now in London against rupee paper, it would not be a very revolutionary thing for the Government to lend it them in India against similar security?—It would not be a revolutionary thing, but then you must regard it, please, from some different points of view. Just let me take a case to show where your argument, if I may call it an argument, that the two things are much the same, would rather break down: Supposing that the Secretary of State had been accumulating some money towards the end of March in order to pay his 5th April dividends, and he had lent it to these banks with the understanding that on the 3rd or 4th of April he will get it back from them and be able to use the money to pay his dividends, from the point of view of the Secretary of State it would be a very serious matter if that money, instead of being repayable to him at the Bank of England, at 4 p.m. on a certain day in April, were in India and repayable to the Comptroller-General.

259. I did not mean to controvert that; I was thinking of a different point?—I was not sure whether you had noticed that. It is a very important point. From the point of view from which you have raised it, that it would not be a revolutionary departure, I quite agree with you.

260. I meant only that if the Government of India had the money to lend in India, then to lend it in this particular way would be nothing very new?—There I quite agree with you.

261. In paragraph 15 of Appendix I. you quote a number of opinions that have been expressed by the Government of India from time to time; you will not perhaps endorse them, but I want to ask you how far those opinions related to lending money from what I might call the normal balances of the Government, and how far to lending money from amounts temporarily with them in excess of their normal requirements?—I quite agree with you that a sharp distinction ought to have been drawn, but whether the writers were scientific enough to draw such a sharp distinction in their own minds I do not know. I agree with you that there is a distinction in principle between the two kinds of loans, but there is this common to the objections to both—that, whether you are discussing a system of regularly lending a crore or two crores, or whether you are discussing a system of occasionally lending a large sum when you have very large sums, the argument that the Government may have to withdraw its money at unexpected times applies to some extent.

262. I was thinking partly of this argument—for the Government to lend would be a disturbance to the supply of money in India, but at present if the Government does not lend it means a disturbance?—Yes. Of course, the general argument which, as you very truly say, applies to normal times, would have much less applicability to a time like the present, when the amount locked up in the Government Treasuries is unusually large.

263. You would not wish, therefore, to endorse these opinions if they were taken to apply to abnormally high balances?—Certainly not.

264. When you were talking last time about the transfer of funds from India to London generally, you said that you were always willing to do it when there was a demand for Council bills, and when the Government of India had funds in hand, because it facilitates your operations in various ways that it should be possible for you to issue your loans at a convenient moment, and so forth?—Yes.

265. You did not mention among those advantages the general strengthening of your sterling position; that is to say, in addition to your cash balances in London it might be regarded as an aid to the paper currency reserve and the gold standard reserve; would you say that was the case?—You mean, I suppose, that if there were a sudden fall in exchange

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the larger our balances at the moment the better would be our position for meeting such a fall; is that it?

266. Yes?—It is perfectly true that, the larger our sterling reserve is, the better is our position for meeting a fall in exchange, but if you are asking me about the actual practice, I should not think that the Secretary of State would ever increase his resources with that object in his mind—I mean he would be guided actually by many other considerations than that. Although, as you say, if incidentally the result that you mention occurred it would be an advantage, still it would only be incidentally.

267. In the crisis of 1907–8 he started with medium balances and he used them to a considerable extent, so that the London balances sank at one time to a very low point; that was the case, was it not?—Yes.

268. In the succeeding year the balances went up to an unusually high level?—Yes.

269. I should like to know if it was at all in the minds of those who were directing affairs that this raising of the balances would be putting them in a stronger position if there was an early recurrence of the difficulties that they had in 1907–8?—I think I can say very definitely that that was not in the minds of the people concerned. I would like to add this, so as to make the answer quite complete: After the recovery in exchange subsequent to the crisis we sold our Council bills rather freely for the purpose of building up again in London our gold standard reserve, which had been depleted, and that building-up was naturally effected very largely by remittances from India. It is quite possible that during the interval between when we got the money home and when we invested it in securities for the gold standard reserve the balances were rather high.

270. Apart from the investment of the gold standard reserve, it was the fact that the accumulation of balances in the years 1909 to 1912 did have the effect of making your sterling position very much stronger?—Now you are speaking of the whole period. It did make the sterling position stronger, but I can say, because that question has been sometimes raised, there has been no policy of building up an exceptionally strong sterling position with that object in view.

271. That is what I wanted to know?—If you have read, as no doubt you have, the India Office Memorandum on India Office balances which was given to Parliament, you will recollect that what I say now is practically the whole theme of that memorandum.*

272. Now as to the general principle of the Reserve Treasury system. So far as I know, there is only one other country that has anything similar, namely, the United States, and it is always made a criticism there that it upsets the money market by taking funds off it, sometimes at a moment of inconvenience; would you say that the Indian system is open to a general charge of that kind?—Yes, with considerable mitigations. I do not think the Indian system does it on so large a scale, or anything like so large a scale. I happened to be looking at some American statistics; I do not know how the United States authorities get the figures, but still they publish them officially. They show what proportion of the total money in the whole of the United States is held in Government Treasuries, in banks, and so on. I notice that they give these figures for June 30th of each year, and in one year they held 16·31 per cent. of the total money of the United States.†

273. Does that include the amount held against the gold certificates?—It includes the gold certificates, but not the gold that they hold against them.

274. It is the Treasury balances, is it?—They call it "Coin and other money in Treasury as assets." So 16 per cent. of all the money in the United States is shown in this return in that particular year as having been locked up in Government Treasuries. The percentages vary; that is the maximum, and the lowest that they give is rather under 9 per cent.

275. The important figure is the fluctuation?—Yes; the lowest percentage is 8·6, and the highest, as I say,

16·31; that is, the amount is twice as great at one period as at another. I merely mention that as showing that the Indian system is not as bad as that, but no doubt within limits it is open to the same criticism that is notoriously brought against the American.

276. I suppose that in March of this year something like 8 or 9 per cent. of all the money in India must have been in the Government Treasuries, and a few months previously perhaps 3 or 4 per cent.?—I will not try to work out the figures in my head.

277. There was a very large fluctuation?—Yes, there was.

278. Would you say that the stringency in Bombay and elsewhere this spring may have been partially due to the working of the Reserve Treasury system in India?—I suppose that it was, but I would not say that, if I may so express it, with any great enthusiasm, because the stringency of this year, as you see from the chart I have produced, was not appreciably greater than the stringency that has existed in many years when there has not been so large an accumulation of money in the Government Treasuries.

279. I did not mean that it was the only possible cause of the stringency, but whether in this particular instance it may not have been the cause, while there may have been other causes in other years?—I suppose it is clear that if less money had been in the Government Treasuries it is probable that there would have been rather less stringency, except that there is always the very difficult question, how far is the money that is locked up in Government Treasuries what is called money market money, or how far is the locking of it up a cause of the demand for advances from money market resources. There are so many different kinds of money—you are familiar, I am sure, with that point.

280. Would the first three months of 1913 have been a suitable occasion for lending money from the Treasury balances in India if any sort of different machinery from what there actually was had been in existence for doing it?—I could not conceive a more suitable period. Supposing the policy is adopted, the most suitable time is the one at which there is most money available, and I do not think there has ever been quite so much money available in the Government Treasuries in India as in the period that you mention.

281. I should like to go back to almost my first question and bring this in connection with that. One of the reasons why there was so much money in the Government Treasuries was because there was rather a low amount of Council bills sold; is not that so?—That accounted for it to some extent. I do not think it was a very serious cause. In one of Mr. Newmarch's papers you will see a comparison of the Council bills sold in that year and in a previous year.* I do not think the sales were exceptionally low.

282. Are those figures available for February and March?—In February 1913, there were sold telegraphic transfers for 357 lakhs and bills for 63 lakhs. That adds up to 420 lakhs. That is less than in the previous year when the two together added up to 487 lakhs. Similarly in the months preceding the sales had been lower, but they had not been noticeably low. Shall I give you the figures for January?

283. I would like to have them for January?—In January 1913, the sales were: bills, 255 lakhs, and transfers, 318 lakhs, that is 573 in all; whereas in January 1912, the bills were for 85 lakhs and the transfers for 645 lakhs.

284. That is to say in 1912 they totalled up to 730 lakhs, and in 1913 to 573?—Yes.

285. As you say, the difference is not very great, and the figure 573 is not a very large figure. Have you got the figures for March?—For March this year the bills were for 55 lakhs and the transfers for 177 lakhs, and for March of the preceding year 76 and 290 lakhs respectively.

286. So in the previous year there were 366 as against 232 this year?—Yes.

287. So they were about 50 per cent. higher in the preceding year?—The only point I am making is that

* Cd. 6619

† Report of the Comptroller of the Currency, Washington, 1912, p. 51.

* Page 238, Appendix VII.

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they were not noticeably low. If you hold that the exceptional amounts in Government Treasuries in India were due to an exceptionally small sale of Council bills there I could not follow you.

288. As compared with the preceding year there was a difference of nearly 2,000,000*l.* in the first quarter of the year?—Yes.

289. Would you hold that the small demand for Council bills was due to the high effective rate for money in London?—I think, although I could not prove it, that the high rate in London does have some effect in diminishing the demand for Council bills. I think probably the exchange banks would operate generally with less freedom when they have to discount their sterling bills at rather onerous rates in London; but I do not think—and I am merely giving you my impression—that that is one of the most important of the causes. I think that what you may call general trade causes in India are much more important. In support of that I might mention, as shown in this chart, which I daresay you will be looking at later, at the end of 1912 and early in 1913 there was a 5 per cent. bank rate in London, and in the previous year for the same sort of period a 4 per cent. bank rate. The difference of 1 per cent. would not account for any very great consequential differences.

290. That is the bank rate, and the bank rate differs in its effectiveness?—Yes.

291. That is the first point; and also that is the three months' bank rate in London, and it is not the three months' bank rate in India that you are talking of?—That is so. What I was answering at the moment rather was this—whether this small sale, this reduced sale of Council bills, was to be very largely attributed to a high Bank of England rate or rather, not to a high Bank of England rate—I do not wish to put it in that way—but to a high general money market rate in London. I should reply that I cannot say that the money market rate in London was a very important factor.

292. You think it was a factor, but not a very important one?—Yes.

293. (*Mr. Gillan.*) I want to ask you first about the amount of our balances. The attacks that have been made on the Government from this point of view have chiefly been confined, have they not, to the home balances, that is, the balances held in the India Office?—Yes.

294. But the real point of importance is the aggregate balances?—Yes; that is a point which I may say the India Office has lost no opportunity of mentioning.

295. You say that the excess which has taken place in the aggregate balances has been due chiefly to two causes, first, to excess of actuals over estimates in the revenue account, and, secondly, to short spending on railways?—Yes.

296. Now about this short spending on capital account; it has been due chiefly, has it not, to non-compliance with home indents, or rather it has taken place in the English part of the expenditure?—It has varied a good deal. It does not entirely answer to what you say. Would you mind looking at statement A, page 70, where you will see the figures for 1910–1. In that particular year you will see it was mostly Indian; I do not know the explanation, but as you say, in other years it has very largely taken place in this country. In 1909–10, for example, the under-spending was mainly in this country, and also in 1911–2.

297. I do not want to go unnecessarily into technical points, but there was one difficulty, was there not, about the amount of indents that the audit officer was allowed to certify?—Yes. What we have done, as of course you know, is to allow indents to be certified in advance up to a very considerable sum—I think it is now about four millions.

298. I merely want to make it plain that that particular point has been considered and dealt with?—It has.

299. In the year 1912–3 I think as a matter of fact there was not a lapse, or very little lapse?—Yes. That is partly due to the fact that an extra grant was made in the middle of the year. If you are bringing out that the Secretary of State and the Government

of India are doing from time to time what they can to prevent these lapses, then I am grateful to you for bringing that out, and, of course, my answer is in the affirmative—that they are doing what they can in that respect.

300. Another point in connection with the same capital expenditure: At present there really is only one year's programme for the railways?—Yes.

301. There used to be a three years' programme, did there not?—There were great ideas of a three years' programme, but I do not think they were ever more than ideas, but they had sometimes a delusive appearance of reality. Nowadays I think that very properly, since the Secretary of State cannot pledge himself for three years ahead, he does not even appear to do so. I think that is the extent of the change.

302. The point I wished to get at was that that does create a practical difficulty, does it not, considering that the railway programme is made up to December, and that they have to raise the expenditure on that programme in April?—Yes, and the difficulty is a great one. Not only, as you say, have various attempts been made to meet it, but I have no doubt that we shall go on making more attempts and getting nearer to a satisfactory system. That is what one may call one of the recurring questions of Indian administration.

303. Now about the revenue account and the estimates that have been made. I think you said that the excess in the opium revenue was not a matter of estimate, that is to say, the excess was definitely put aside as a matter of policy?—That is so. The excess, when it had occurred, was put aside as a matter of policy, and the disposal of it is shown very largely in that despatch of Lord Crewe's dated 23rd December 1910, that is given in Appendix II. (pp. 65–6).

304. The other head under which the excess chiefly occurred was what you call, I think, commercial?—That is so. If you look at Statement E in Appendix II. page 81, you will get the particulars.

305. As a matter of fact, in the railways the revenue has changed, taking the last five years, by millions a year, one way and the other?—Yes, it has. It is extraordinarily difficult to estimate what the railways are going to earn.

306. It has sometimes dropped by millions, and it has sometimes risen by millions, as, for instance, in 1907–8 and 1908–9?—Yes, and when it rises it rises very high, and when it falls it falls with very serious effect. In 1908–9 the railways yielded between three million and four million pounds less than they were expected to yield.

307. That is a point I was coming to. In the last three or four years there have been huge surpluses, excess of actuals over estimates?—Yes.

308. But in 1908–9 there was a deficit of actuals as compared with estimates of three and three-quarter millions, was there not?—I have not the actual figure before me, but I have no doubt you have got it right; it was about that.

309. What I want to bring out is that the estimates are not always necessarily wrong in one direction?—Of course not.

310. Which shows, as Mr. Keynes has suggested in reference to the budget year, the extreme difficulty of budgeting at the present time?—Yes.

311. The fact is at present that the Finance Minister has to make a declaration before seeing his hand?—That is so.

312. And we at present cannot make a forecast of the coming year so much as an estimate of what is considered to be the normal?—It comes very largely to that.

313. That is what is always said in the financial statement?—Yes.

314. So that unless the year happens to be exactly a normal year your estimate is bound to be defeated—either to be in excess or in deficit?—That is so.

315. There is another point in connection with the same matter. The revenue estimates are a means to an end, are they not, in this way, that you use them to determine the scale of expenditure that is permissible?—Yes.

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316. That is what one is aiming at in making the Budget?—Yes, and when determining the amount of the loans; that is one of the things determined by the estimates.

317. Considering the fluctuations in the revenue, it is well, is it not, for the Government of India to be extremely cautious?—Yes, I think there are many administrative devices, which sometimes seem curious to anyone who is not familiar with these Indian difficulties, that are used in India, and are very admirably adapted for the purpose.

318. Will you say that in making the Indian Budget one has got to consider, not so much what we are likely to get, as what we can count on getting, and make sure of getting?—No, I do not think that you budget, as a rule, in such a pessimistic way as to reckon only on what you are quite sure of getting. I would rather say that you put down as your probable receipts, as you very well put it just now, what the receipts will be if the seasons and general conditions are normal; and that, of course, is a guess, and sometimes a hazardous guess.

319. In any case, with reference to a question that I think Sir Robert Chalmers put, the distribution of what we call the agreed surplus, that is, the surplus that we find we have at the end of the year, requires exactly the same sanction as proposals for the distribution of a surplus which we anticipate?—Yes. Formerly that was not so, but I think it is a great improvement that it is now as you say.

320. That is now the rule?—Yes.

321. One more point about balances. What I want to put to you is whether it does not really work as a sort of equalisation of the conditions of the finances of bad and good years, that is to say, if you have your revenue constantly varying it is impossible every few years to vary your taxation?—Quite so; I think you put it, if I may say so, extremely well, and I would, to bring out the full meaning of it, extend it a little. What one finds is that when one has a bad year then one has to borrow, to issue India bills, and so on; then after an interval a good year, or a series of good years, and then you pay off in the good times the debt that you incurred in order to meet the troubles of the bad times. Really you must expect this seesaw of good and bad years, of deficits and big surpluses, and except from the point of view of pedants and unpractical critics, I do not think there is much harm in these fluctuations.

322. You think it is permissible to keep something in hand in the good years?—As a rule, when you have a good year it has followed on a bad year, and you do not really keep it in hand; you use it in order to pay off some of the debts that your last bad season imposed upon you.

323. Practically that has been the effect of the last few surpluses, that you have paid off; you have got yourselves square and you have something practically, you might say, in hand for trouble when it comes?—Yes.

324. And you are in a stronger position because you have paid off all your floating loans?—Yes.

325. At the same time you have maintained, not an excessive, but a very steady railway programme for the last four or five years?—Yes. But for those surpluses, as Sir Ernest Cable was saying, it would have been an exceedingly difficult thing to maintain this railway programme, and to cut it down would have been very harmful to India.

326. About this change in the Budget date; is there any objection from the home point of view, that is to say, does it interfere seriously with other arrangements at home?—What sort of change were you thinking of?

327. Say to September or October?—You only have to think of Parliament. Supposing that Parliament is going to have an Indian Budget debate in July, you cannot then say what is going to be in the Budget that is to be introduced next September, so that you would have to recapitulate the Budget that was introduced last September. The House of Commons is very patient with regard to Indian affairs, but to listen to a long speech on a Budget which is nine months old, I think would overtax the patience

even of the House of Commons. As regards the India Office, of course, it does not matter; we can adapt ourselves.

328. (Chairman.) Perhaps the House of Commons would like to have the Indian Budget earlier in the year?—I was assuming that you would probably not have the Indian Budget earlier than, let us say, May, what with pressing home business, and so on; and even if in May you were discussing last September's Budget, you would feel that it was rather a wearisome business.

329. (Mr. Gillan.) But you would agree that if a change were possible it would be desirable?—Yes.

330. That the present date is a very unsatisfactory one from the point of view both of India and of England?—Yes. If a change could be made without disturbing the administrative arrangements for touring, and so on, I see great advantages in it.

331. Now, about council bills: The only thing I want to ask is that it was not quite clear to me from the evidence you gave us at the last meeting, whether you consider that the amount of council bills is really determined by the requirements of the Secretary of State or not, that is to say, how far you bring in the argument that they are required in the interests of trade?—Do you mean that the amount is actually fixed with reference to the demands of trade?

332. Yes?—I know I was a little hesitating in answering one of the questions. I think I put it this way: That supposing in a certain year we begin with an enormous number of council bills to be sold in order to work up to our estimates, we should sell rather freely in the opening months of the year in order to make some progress with regard to carrying out our programme; but that when the year got on probably that sort of consideration would almost fade into insignificance as compared with the demands of trade. It is the demand of trade that is throughout the greater part of the year the governing consideration.

333. You do not mean that you actually bring home money that is not going to be required at home?—No.

334. But it may be in anticipation of requirements?—It is in anticipation. I am very glad that you have put that question, because, as I think I said in reply to the Chairman or to some other member of the Commission, the only purpose of bringing home money from India to the India Office is to spend it in the interests of India. The idea of bringing home money in order to have the pleasure of having a large fortune on show here I need scarcely say is quite out of harmony with India Office ways. Whenever we end up the year with a bigger balance than there is any need for at the moment we are usually sorry that we have not had the opportunity of spending the money, say, by paying off debt, or by avoiding the issue of new debt.

335. (Chairman.) Do you bring home money in excess of your actual and of your anticipated requirements on the ground that it is a convenience to trade that that money should be brought home, or do you limit your total purchases to what you either actually require, or think it wise to provide yourself with in anticipation of foreseen requirements?—I think I can answer that best in this way: We know that the requirements for expenditure on India's behalf in England are practically illimitable; we know, for example, that in every year we ought, if we could, to spend more money on a variety of purposes than we actually can spend owing to the restrictions which the state of the money market, and so on, place upon us. Therefore we are never in a position to ask: If I bring home so much more money shall I know what to do with it? There are always objects in England for which money is required on behalf of India, and, indeed, urgently required.

336. (Sir Robert Chalmers.) For capital purposes?—Capital purposes are those for which there are the most unsatisfied demands.

337. (Sir Ernest Cable.) And for paying off debts?—For paying off debts, buying capital stores, and so on.

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338. (*Sir Robert Chalmers.*) You bring home money for the double purposes of revenue and capital accounts?—That is so.

339. (*Chairman.*) Am I right in understanding from that answer that you do not sell in excess of your requirements, actual or anticipated?—If by “anticipated” you mean definitely anticipated and set forth in any schedule, then I do not think your question puts the fact quite as it is. Supposing we were selling very largely now and you suddenly ask: What are the specific requirements that the proceeds of those sales are intended to meet? I could not give you a specific definite schedule of the requirements which those proceeds are intended to meet. I should say they are partly the Budget disbursements of this present year, and then I should be a little indefinite in form but not really in substance. I should say, if at the end of the year we have some millions more than the closing balance for which we have budgeted, that only means that we shall be able to have either a bigger railway programme than otherwise, or that with the same sort of railway programme we would have to make smaller issues of debt, and so on.

340. May I put it differently? You would never bring home more than in your opinion you could usefully use at home?—Quite so.

341. If trade required more, you would not consider it your business to provide it unless you saw your way to use it usefully at home?—Quite so. Of course, the circumstances in which we had money and could not usefully use it are very unlikely to arise, but if they did arise we should not be so at the mercy of trade as to sacrifice other interests merely to please the trader. That, I fancy, is the gist of your question.

342. (*Mr. Gillan.*) I am very anxious to get this quite clear, because, as you know, the charge that is always made against the Government generally is one of manipulation or management, whether it is of the currency or of the drawings on India or anything else?—Yes.

343. With regard to this council bill question, one point that has been made is that the Government draws in excess of its own requirements, and that it was explained that this was done for the benefit of trade, and objection was taken to that, that the money of India, as it was put, was being used for trade purposes?—Yes.

344. I want to know if we cannot get the Government case established merely on the ground of Government requirements; that is what I am anxious to find out from you. For instance, in paragraph 30 of Appendix I. you give, I think, four grounds for the free sale of council bills?—Five, I think, actually.

345. The first three of those relate to trade matters, and the fourth is the Government point of view?—That is so.

346. Would it not be clearer if this fourth ground, which you say is much the most important, were put forward definitely as the object of the policy of the Government, and the others as incidental advantages?—I quite agree with you. Let me be perfectly candid in this matter. You know that the whole Indian financial system is a very great and complicated and difficult system, and very often on extremely short notice one is asked to give Parliament a sort of justification of it in three lines—a very brief, lucid, correct summary. I think occasionally it has happened, and I do not think one need be ashamed of it, that when giving a summary of that sort one has not always put every fact in its right perspective; I think occasionally one has overstated the importance of meeting trade, to use a phrase which is now familiar to you, and has rather left in the background all these more important considerations of meeting the Government requirements and of doing the best for India as a political community. Sometimes in an official publication the thing has been put in what is not ideally the right perspective. In such a matter the Secretary of State relies on officials. They have done their best, but, under great pressure of time, have not always expressed the facts with the most complete and scientific precision that can be reached after long study and labour. I think there have been some slight

defects in the method of presentation; that is what it comes to.

347. Then in paragraph 38 of Appendix I. you say “This and similar statements seem to rest on the assumption that the Secretary of State has adopted a policy of retaining in London a balance greatly in excess of the amounts needed to meet his requirements. This assumption is incorrect.” You would not modify that statement?—That refers to a slightly different matter. I think that we are probably at one, but I am not sure. What I meant to say there was that the Secretary of State does not want to keep high balances; he merely wants to have enough money to meet his requirements.

348. You are referring to the policy there?—Yes.

349. About loans in India. Mr. Gladstone brought out that the balance that we aim at at the end of March is about 12,000,000*l.*, 18 crores?—Yes.

350. That balance is fixed at that amount, is it not, to allow of the withdrawals that we know will take place within the first six months of the financial year?—Yes.

351. That is to say, we are working down to a minimum balance which is reached about November or December?—Yes. That is very important, and I ought to have mentioned it in replying to Mr. Gladstone, but I forgot.

352. That is to say, we hold a certain balance on March 31st because we know from experience that there will be withdrawals of a certain amount which will work it down to what is considered an absolute working minimum about November or December?—Yes. Some of Sir James Westland’s papers bring that out rather fully, as you know.

353. Suppose we take that absolute minimum working balance of, we will say, 12 crores, from that point the balance begins to go up again, does it not?—Yes.

354. In January, February and March?—Yes.

355. There is then an excess over and above the working balance?—Yes.

356. Is there any objection to lending that temporary excess out in India?—No, I see no objection to lending anything that can be safely lent, provided—and this is very important, I think—that this is borne in mind: If you lend in some years you rather create an expectation that you will be lending in all years, and it is a very serious thing to create an expectation of that kind which you may have to disappoint. That is perhaps a platitude, but it is really a very important platitude to bear in mind. Then there is a further point which, of course, you have not overlooked, that in December you cannot lend much. If you have got in the habit of lending, people might expect to borrow your money in December, when you have not got it, rather than in March when you have got it.

357. I do not follow that; why should they not take it in January, February and March when there is a big demand?—But there is a big demand in December.

358. They cannot get it then, we will say, but suppose they can get it a later on?—I am merely putting this consideration, that if you get into the way of lending in January, February and March, when you have money, it is a little difficult to give a completely satisfactory answer to someone in December who wants to borrow; I mean, that if you say you have not the money, the answer is, “Well, you ought to have.” I am merely putting it as a more or less psychological difficulty that may be of some importance, but I do not wish to put anything hostile, as I think I made clear.

359. Do you think this possibility of money getting upon the market would apply if the amount lent out were comparatively small?—No; of course the smaller the amount the less is the particular danger.

360. (*Sir Robert Chalmers.*) Would you stick to the small amount?—No. One of the reasons why I was so anxious not to say anything very definite as regards my own opinion is that everyone of these questions that Mr. Gillan is putting, and what you have just put, are very important questions requiring judgment. They cannot be answered in brief sentences, and the

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whole decision is a very difficult one to arrive at. I quite see the force of your question naturally.

361. (*Mr. Gillan.*) The only other point I wish to put to you is about loans from the Paper Currency Reserve. I take it that the chief ground on which you make the proposal is that at present we have money to spare in the Paper Currency Reserve?—Not that at the present you have money to spare, because that equally applies to the Government Treasuries, but that you are more likely to have a suitable sum there than you are in the Treasuries. That is the one and only justification.

362. But if there is a spare amount in the paper currency, would the better course not be to put it into a permanent investment, as has been done with spare money before?—That is what Sir Clinton Dawkins said when he discussed it in, I think, 1900. It seems to me that if you have some spare money it does not make very much difference to the taxpayer whether you lend it say for half a year at 7 per cent. or something like that, or whether you buy a security which gives you $3\frac{1}{2}$ per cent. throughout the whole year. If you could really meet a genuine reasonable demand on the part of the public by lending it at 7 per cent. for half the year, or something of that kind, and could assist Indian trade, the balance of the argument is in favour of that, I should say.

363. (*Mr. Gladstone.*) With reference to a change of the budget year, I was wondering if a change to September or October would suit you as well with regard to the issue of sterling loans. Would you not come across the autumn and winter money market, which over here is usually less favourable than the summer money market, which you now make use of for the loan requirements of the present budget year?—We certainly could not depend on an autumn money market in that way; but I think it is quite possible that the Government of India and the Secretary of State between them, before the budget came out in September, would exchange their views as to what would be the probable size of the railway programme and the probable amount of loans. The Secretary of State would have to issue his loans before the budget. You see he is not like a Minister who has to go to Parliament or to an authoritative body in order to get permission to issue each particular loan.

364. (*Sir James Begbie.*) In reply to the Chairman on the subject of the Government deposits with the Presidency banks, you mentioned that they began in 1862?—As far as I could ascertain that was the beginning.

365. At that time the Government were not only depositors, but also shareholders?—Yes.

366. You mentioned to-day also that deposits were given to the banks by way of compensation for giving up their note issues?—Perhaps I should be more careful if I said that the banks always claimed that that is the compensation, and I think generally, without committing myself, it has been thought that there was some reasonableness in the claim.

367. But you would not admit, as an absolute fact, that it was a case of compensation?—I do not think, if I may say so, that there is very much between us on the point. Supposing that at any time one of the Presidency banks said that it had a definite claim to so and so, because otherwise it would not be compensated for the confiscation of its rights, I should not like to agree with that; but in a friendly and general way I think most people would agree that there was something to be said for giving the banks something when the note issue was taken away from them.

368. The reason I asked the question is that it is constantly being said that Government leave considerable sums for the benefit of trade with the Presidency banks, and it is a question, to my mind, whether the Government are altogether entitled to say that. If they give the deposits by way of compensation for giving up the note issue, the assistance that the deposits give to trade is a consequence of the compensation, not the cause?—May I ask you, is there very much in that point? I do not mean is there much substance in it, but is there not a slightly unreal controversy as to whether the Government claim a little too much merit for themselves or not?

369. I do not wish to press the point, but I would like to have it cleared up, that is all?—I should say, and I think this is very much in accordance with your view, that it has generally been recognised that the claim to compensation, though in no way a legal claim, appeared a claim that it was reasonable to recognise.

370. In paragraph 9 of Appendix I. you say, "On the flotation of a loan, and in special cases, the amounts are increased." I do not quite know what you mean to impress upon us there. In the case of floating a loan, do the Government increase the balances with the banks in advance of the issue of the loan?—No.

371. Then how?—The information that I gave was taken, I may almost say plagiarised, from that telegram from the Government of India, from which I read you some extracts before (see page 66, Appendix II.). What I meant to convey was that when a loan is issued and the money paid into the Government account at the Presidency banks, I believe that it is the practice of the Government not to draw out that extra money with too great haste so as to take the money off the markets too rapidly.

372. You are aware, of course, that the Government have claimed the right to do it, and have actually done it in previous years?—Yes, and, as I say, you get no protection in your agreements against it. I believe—of course I may be misinformed—that in a general way the Government, in a spirit of comity, does take this money from the banks, from the proceeds of the loans, somewhat gradually.

373. That has been latterly the case, but it is not a thing that we can depend upon; the banks cannot depend upon the money being left with them at any time, can they?—No.

374. Then you go on to say that "At times of great stringency in the money market the Government of India grant loans at interest to the Presidency banks." I do not know whether you know they also refuse to grant loans?—Have they done so recently?

375. Not recently—that is, not within the last six or seven years, so far as I know?—The part of the history with which I am familiar is that there is a despatch of the Secretary of State of 4th May 1899, in which he laid down that rule, or made that suggestion that the rate should be the bank rate (see Appendix II., page 64, paragraph 10); and from that time I think it has been the practice to grant the loans when applied for. There may have been exceptions, but I do not know of them.

376. There is no settled policy in the matter, so far as I know?—If at any time the Government had money and there was stringency in the money market, if you were willing to pay the bank rates, I think you would have no difficulty in getting a loan.

377. I think that is not the case. We have had cases where we have been refused loans without any reason assigned; at another time we have been told that the Government declined to lend in the absence of a critical position?—Of course, there is some room for diversity in the practice of individual Governors-General or Comptrollers-General. What I have endeavoured to do is to give you what I understand to be the declared policy of the Government and I assume that it is usually carried out with discretion.

378. You say that of late years there have been no requests for loans from the banks, and you assume that that has been due to the rate of interest demanded. That has not always been the case. As you say in the same paragraph (paragraph 10 of Appendix I.), the banks have taken loans; so it is not always the case that the banks decline to take loans because of the rate?—I think the correspondent of the Secretary of State, who said the bank rate was the chief cause of the loans not being demanded, possibly overstated the matter; and I was rather careful, I am afraid, as I explained with some prolixity, to say that I did not pin myself to his view.

379. Do you know anything of the conditions that have been laid down in previous years on which loans shall be granted by the Government?—When you say previous years, what period do you refer to?

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380. At the time the loans were being taken; I am taking now between 1898 and 1906?—I think that the period was as a rule prescribed, and that the rate was variable from time to time. If the bank altered its own rate, then it altered the rate of interest paid to the Government. I think those are the only conditions, and that the correspondence between the banks and the Government of India was extremely brief.

381. I would like to mention that some very onerous conditions are attached to these loans. For instance, I find that the Comptroller-General has intimated that the Government should help the market only when trade is seriously inconvenienced by a high bank rate. That was one of the conditions laid down in 1899. Then we have also been told that the minimum bank rate at which the question of loans would be considered was to be 7 per cent.; that is to say, the Government would not give us loans when the bank rate was below 7 per cent.?—I think that even if that does not sound reasonable there is a certain reasonableness in it. The principle followed has been—and I do not think the banks themselves have much dissented from it—that these loans should be somewhat in the nature of emergency loans, and the 7 per cent. rate was no doubt taken as a sort of index of an emergency having arisen.

382. Of course, the banks are in this position, that they have to assent to the terms laid down by the lender, for the Government are in the position of the lender?—I could not quite agree to that statement, and I will tell you why. I have read through a vast amount of correspondence between the Presidency banks and the Government of India about loans and similar subjects, and I have always been struck by the extreme reasonableness with which the Presidency banks have put forward their views; I mean they have never put forward the extreme view that every penny that the Government has ought to be lent with them and placed at the disposal of trade. They have always gone about it in, I may say, a much more sensible manner, and have said, when there is a pressure in the money market of Calcutta or Bombay, it is really hard that the Government, if it has funds, should not lend them to us either with or without security. It is because they have approached it, and I think very properly approached it, in that spirit, that I do not think the adoption of a certain figure as indicating pressure is unreasonable.

383. I do not suggest that. My desire was to bring out the conditions on which the Government usually give these loans. Another condition was that the banks, when they took loans, were not expected to make any profit out of them—that has already been mentioned: that is to say, the banks were expected to lend at the same rate as that at which they were borrowing?—That remark originated with a Presidency bank, as I pointed out.

384. That has been brought out already. The Comptroller-General at one time also intimated that if a Presidency bank declined to pass on money lent by Government, at the same rate as that paid to Government, he would suggest to Government that loans should be made direct, and he thought banks would like that as little as Government. So that the conditions under which the banks do obtain loans occasionally are very stringent?—Yes.

385. When you state in paragraph 10 of Appendix I. that at times of great stringency the Government lend to the banks, that conveys an impression, to my mind, certainly, which I do not think is altogether justified by circumstances?—Do you mean that the Government are more severe in their conditions than I have indicated?

386. That is the impression given to my mind?—I can only say that I base all that I say on the subject on the official correspondence that we have here which expresses the intention of the Secretary of State and the Government of India. I noticed with some interest that remark which you quoted from the Comptroller-General. It is quite possible—I do not think there is anything improper in my saying it—that that particular remark may have been somewhat indiscreet; I mean Comptrollers-General are not perfect 24 hours a day and 365 days in the year.

387. I think you stated to the Chairman that regarding loans from the Treasury there was a question whether the market should rely on Government balances?—Yes.

388. The market in India rather looks at it, sometimes at any rate, in a different way; they think it is a question whether the Government are justified in withdrawing money to a very large extent from the market's resources?—As I said, I think to Mr. Keynes, it is very hard to say how far these Government balances come from market resources. If they represent land revenue paid in by agriculturists that is not money market money, and it is not a depletion of market resources.

389. I think that a great deal of that money is money market money for this reason, that in the cotton districts, for example, the soukars, the native bankers, lend money to agriculturists for the purpose of paying their revenue—they advance money against the growing crops—so that the soukars give to the agriculturist and get money from the banks, and therefore, it is really money market money that is being raised?—On that subject I defer to you. You know so much more about it than I can hope to.

390. You are aware that the bank rate of India is the rate fixed from time to time by the Presidency banks, and that the great bulk of Indian trade is, as I suppose you know, conducted at rates which are dependent upon or based on bank rates?—I should assume that, although as a matter of fact the divergence between, say, the rate prevailing in a district and the quoted bank rate might be very great indeed.

391. Not very great nowadays since railways have developed so much?—There again I would not profess to know anything like so much as you know on that subject.

392. At any rate what I want to bring out is that it is a matter of very great importance to trade that the bank rate should not reach a high level?—That is so.

393. That of course you acknowledge in paragraph 14 of Appendix I., where you say the advantages are obvious?—Is it worth mentioning here that some authorities, including bankers, have been very eloquent in the correspondence I have read as to the disadvantages of too low a bank rate, because they say it tempts people to hold up their produce unduly by making it cheap to hold out for high prices; and that it tempts people to speculate in securities, and has other similar ill effects.

394. When you say it is an advantage to have a low bank rate, and you refer to the obvious advantages of avoiding a high bank rate, do you mean that it would be an advantage to the Government, or to trade, or both?—I meant primarily to trade, and in fact to India generally; but incidentally whatever is good for India is good for the Government. I was not thinking primarily of the Government, except as a sharer in India's prosperity.

395. Do you not think that if anything can be done to prevent these high rates periodically in India it would be a great advantage to the Government in the matter of floating loans in India?—Yes. As a matter of fact, I believe that up to a certain point it is very easy to float a loan at certain periods of the year in India, because as against a very high bank rate in December or March there are very low rates prevailing in the dead season. Still generally I agree with your remark.

396. If you can bring about a state of affairs when the rate of interest would not rise to a high level in the busy season, the market would be in a better state to assist the Government at times when they do take loans?—I quite agree with you there.

397. So it would be to the advantage of Government as well as of trade?—Certainly.

398. The season of high bank rate corresponds, I think, with the Government revenue collecting season—I think Mr. Gillan has already brought that out?—Yes.

399. The Government begin to collect revenue in December and January and then the balances rise?—

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The Government revenue usually comes in after the turn of the year. Those two things synchronise fairly well but not exactly—the time of a high bank rate and the time of revenue collection.

400. The minimum is in November and December and goes steadily up in January, February, and March, taking the balances at the end of the month. I think you will find that the Treasury balances mount up year after year in January, February and March, and that is the time when the bank rate is usually highest?—The reason I stopped for a moment was that I noticed that in 1910 your bank rate did not rise to 7 per cent. in Bombay until the end of March.

401. In that year there were very heavy sales of council bills, do you remember?—Yes. I merely say that though the two things generally coincide they do not coincide very exactly; but there is not very much in that point.

402. The usual process is that the revenue collected by the Government passes into the Treasury in hard cash—that is, in notes or in coin?—Quite so.

403. When paid into the treasuries in charge of the Presidency banks, the money thus collected in excess of the balances usually retained is removed to the reserve treasuries or to some other treasury where money may be wanted?—Yes.

404. The revenue money thus collected disappears from the market?—Yes.

405. That, we think, is a great factor affecting the rates of discount. You mentioned that you had been much impressed by the evidence of Lord Northbrook, I think it was before the Committee of 1898, regarding the establishment of the reserve treasuries in consequence of the difficulty experienced in the '70's in withdrawing money from the bank in Bombay?—Yes.

406. Having regard to the effect produced on the rates of discount by the reserve treasury system the remedy applied was an extreme one and most expensive to India; that is a view that I wish to put before you?—I have not compared the rates of discount so far back as the '70's, but of course if you say that there are considerable disadvantages in the reserve treasury system it is so obvious that one could not help agreeing with you.

407. In affecting the bank rate?—Presumably it affects the bank rate.

408. Most other countries have found ways and means of combining and organising their resources for the general benefit of the community. Do you think it is reasonable that Indian trade should continue to be penalised by high rates of discount during several months year after year because of the reserve treasury system?—No. As a matter of fact, referring to the preamble of your question, if you take what one may regard as the two most highly civilised nations, namely, England and the United States of America, I do not know which of them does less to help the trade in the manner you refer to. I merely say that in passing, as bearing on the historical fact. I quite agree with you that, so far as the unforeseen consequences of the reserve treasury system can be obviated with safety both to trade and the Government, it is a good thing to obviate them.

409. (Chairman.) With reference to what you said a moment ago, do you suggest that there is anything in England similar to the locking-up of this money in the reserve treasuries in India?—No. I understand that as a rule the Treasury has very little money because the money comes in and goes out *pari passu*, so that the Treasury does not as a rule place much money of its own at the disposal of trade by leaving it with the Bank of England. I do not know how much the balances are.

410. You do not suggest that that is due to its keeping up any reserve?—No. I thought Sir James Begbie implied that most Governments placed considerable sums of Government money at the disposal of trade. The United States actually takes its money, as I understand, and locks it up in treasuries. The British Government, as a rule, I believe, so adjusts, or has adjusted for it by circumstances, its receipts and disbursements, that considering its importance it has

comparatively insignificant balances as a rule. I think you must not assume that England and the United States, which are two important nations, do what India fails to do.

411. (Mr. Keynes.) Whenever the Treasury has money at the Bank of England, it is in effect put at the disposal of trade?—Yes.

412. (Sir James Begbie.) The Government of England never take money away from the market to the disadvantage of the rate of discount?—No. They have no place to put their money except the Bank of England, I believe.

413. You referred to the very large Government balances which have been in excess of Government requirements, and you explained that they were due to exceptional causes which have almost passed away; but is it not the case that even with the loss of the opium revenue the total revenue will show a considerable increase over that of a few years ago?—It is very hard to forecast. You ought to remember that when the King went to Delhi he promised a great increase, or he made remarks which suggested the possibility of a great increase, of the expenditure on education and there will be on other things, such as sanitation. No doubt there will be heavy demands for expenditure, so that you cannot say whether in the next few years there will be considerable surpluses or not. I do not know that anyone could possibly speak with any confidence on that subject.

414. The point I wanted to make was that there is more revenue collected than in former years?—No doubt.

415. Is there not a possibility that as more revenue fails to be collected and the money finds its way into the treasuries, it will have a greater effect on the money market than formerly?—It depends, of course, on how much money is paid out.

416. On the revenue side there will be a tendency to affect the money market more?—On the whole I should say it was more affected by the balance that remains than by the gross revenue that is paid in.

417. (Sir Robert Chalmers.) Is that true? Suppose you have double the revenue?—And the expenditure?

418. Yes; would that not have an increased effect on the money market? Is it not a commonplace and accepted by everybody that you are taking money off the market when you are taking it out of the pockets of the lieges?—It depends, of course, partly on the amount you pay back and partly on the rapidity with which you pay it back. I can quite understand that if you take money by way of revenue collection early in the year, and then keep it for a long period before you spend it again, then, of course, you will have large balances for a time, and you will injure the money market.

419. (Sir James Begbie.) During the recent period of very high balances—I am talking now of the last three or four years—was the question considered whether the excess balances could be retained in India for use in the money market, with the object of avoiding high rates of interest?—No. I cannot say that that question really was considered. In the first place I may mention—which I have no doubt is familiar to you—that on a question of that sort the Government of India would naturally be the advisers of the Secretary of State, and I cannot recollect that on any occasion they did tender any advice on the subject to him. Then again, as various other members of the Commission have brought out, large sales of bills which drew the balances to England have had very great advantages; so that if any change had been made which prevented these large sales or if any such change had been proposed there would have been a great deal to be said on both sides.

420. You gave reasons which appeared to be regarded as conclusive against increased deposits with the Presidency banks; these reasons are based on what happened in 1875?—Yes.

421. Is there a good analogy between the circumstances of 1875 and those of the last two or three years?—No. You say, "which appeared to be regarded as conclusive." I do not know if you meant that I regard them as conclusive. If so, I do not regard them

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as conclusive. As I explained in answer to another member, I think Sir Ernest Cable, I was anxious to put the facts, to show that the facts of 1874 were of some importance and weighed with the authorities from time to time; but I certainly would not set up the rather vulnerable proposition that we must necessarily be guided now by what has happened nearly 40 years ago.

422. The question of the earlier date of 1875 had reference. I think, to the ordinary balances of the Government; since 1909 there have been very large excess balances beyond the needs of Government, have there not?—Yes.

423. My question with regard to whether the matter had been considered by the Government about lending these balances had reference to lending balances in India and arose from the fact that there were these large excess balances available which could have been used in India if the Government wished?—I imagine, but I do not know, that from time to time the Government of India have considered the question; but they have not approached the Secretary of State on it.

424. You also quote, in paragraph 15 of Appendix I, the reply given by Sir Guy Fleetwood Wilson to a question put in the Legislative Council stating that "the Government of India lent considerable sums out of their India cash balances on deposit with the Presidency banks. They do not consider it advisable to make a practice of lending to the money markets in India in any other manner or to any larger extent." The question I would like to ask is whether that reply was given without reference to the Secretary of State, if I may ask that question?—I am very glad you have asked that question, because I have seen that point raised, I think, in newspapers. There has been a suggestion made in what I might almost call an unfriendly spirit that Sir Guy Fleetwood Wilson was asked or instructed by the Secretary of State to make that reply. Now, what happened was that at the time that these questions were put, either by Sir Charles Armstrong or by Sir Cecil Graham, by one of those two at any rate, notice was given and certain figures were asked for which could only be supplied by the India Office. According to my recollection the Government of India telegraphed for that information and for anything the Secretary of State might wish to say to them regarding this question. I think it was Sir Cecil Graham's question.

425. (*Mr. Gillan.*) Sir Cecil Graham asked one question and Sir Charles Armstrong asked another?—I am on the question put in September. The Secretary of State gave such information as could only be supplied by the India Office and he may have made some general remarks about the series of questions; but on this particular one he said nothing; he left that as a question within the Government of India's purview to be answered by them as they thought best.

426. (*Sir James Begbie.*) Against this reply of Sir Guy Fleetwood Wilson you put in the note "that if during 1912-3 the Government of India had wished to place larger deposits from their Treasury balances with the Presidency banks, they would not have been prevented by lack of means at that time." It is the general idea in India that the Government of India held all their available surplus at the disposal of the Secretary of State for his drawings; is that the case?—No. I remember that in some of those old papers Sir James Westland rather emphasised that point. Of course, the drawings of the Secretary of State are one of the great drains on the Government of India's balances; but there are times when, as in this particular period that we are discussing, the Government of India have far more than is necessary to meet any reasonable amount of the Secretary of State's drawings. In any case there is another point I should like to mention which is perhaps a little intricate, but which is very important. Supposing that the Government of India had placed certain of their money with the Bank of Bombay on loan, say, for three months, and then the Secretary of State wished to draw council bills or to sell telegraphic transfers up to a certain amount, the Government of India would say to him, "You cannot

"draw against this particular sum which we have placed with the Bank of Bombay"; and the Secretary of State would recognise that he could not draw against that particular sum; it would all be taken into account in forming the estimate of what he could draw.

427. Then, I understand that in 1912-3 it was not the case that the Government of India did hold the whole of their balances at the disposal of the Secretary of State?—No, certainly not; but they no doubt were ready to meet his bills or his transfers when they were drawn.

428. You regard loans to the Presidency banks from the Government balances as an uncertain source, and you consider there is an objection to largely increased deposits being given to the banks from the Treasury balances, because they are uncertain; I would like to ask you if you hold the same opinion, and the same strong objection, no matter what the size of the Treasury balances may be—I rather think you have answered that question already to someone else?—Of course, if you do in one year a thing that you may not be able to do the next year, one person may say you are wise to do it when you can, because you confer a certain benefit at that time, and another person may say it is better not to do it at all, because you may raise, and have ultimately to disappoint, expectations. It is a matter really, if one may say so, almost of one's general judgment about things in general rather than a financial question.

429. Could not a point be mentioned or settled, and then if the Treasury balances exceeded that point loans might be given? Might not something of that kind be done?—Personally, as I hope I have made clear, I am in no way obdurate about these matters, in fact I see very great force in what you say. Still, it remains true that if the jute trade, or the cotton trade, in one year were largely dependent on the Government balances, which happened to be very big through some fortunate accident, and went on, say, for two or three years, and then the Government balances, through no fault of Government, fell down, the jute trade and the cotton trade might be very much hampered through the sudden withdrawal. I merely give you that for what it is worth; I do not say it is a conclusive argument in favour of or against any particular policy, but it is a point to be considered, and that it is all I wish to put about it.

430. You drew a distinction between loans to help trade and loans to earn interest, but India Office balances have been deposited with banks and lent to other banks and to discount companies, and these companies, as I understand, do help trade; there is not much point in the matter as between lending to the banks in order to assist trade, and lending in order to earn interest?—The difference between us there is very great indeed. If we were lending in India, we should be very anxious to consider the effect of the loans on the borrowers, I mean not to interfere with their general method of business, and not to raise expectations from them which we could not fulfil. As regards the borrowers from India Office balances we regard them with the utmost callousness. We do not care for those borrowers at all. We lend our money to a bank, or to an approved borrower, and it is understood that he has got to deposit security, and that he has got to pay the money back at the right time, and to pay his interest; there is between us, if I may use an old expression, merely the cash nexus. We want his interest, he wants our loan, and the relation is absolutely different from that between a more or less paternal Government in India and the trade of India.

431. Is there any reason why Government should not give loans in India for the sake of interest only?—No, certainly not. I have drawn your attention to the fact that all this danger of interference with trade, and disappointment if one cannot lend in the fifth year after one has lent in the four years, is rather serious in India, because the Government capital bulks so large in the comparatively small Indian money markets; whereas in England, if you lend one year and you do not lend another, it is so trivial that you do not by.

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withdrawing your loan money interfere with anyone to any appreciable extent. This is the distinction that I put.

432. But you think you might in India?—Yes, I think you might. I think that if you wanted to do in India what we did some months ago—I think we called in seven or eight millions in the course of three months—those figures are not exact, but they are approximate—you would cause a great deal of turmoil.

433. (*Chairman.*) I understand your view to be that if you lent in India, and had occasion suddenly to call in the money, you might create a crisis?—Yes.

434. But if you lent in England, and had occasion suddenly to call in the money, the likelihood of your producing a crisis is much less?—Yes.

435. In addition, you do not care if you do produce a crisis here, as it is not your business in the sense in which it would be your business if you produced a crisis in India?—Yes; and as an illustration of how much we can call in without disturbing the market, perhaps when you look at the papers which Mr. Badock is submitting to you, in which you will see our balances from day to day in the year 1912-3, you will note that between 28 September 1912 and 6 January 1913* we reduced our loans on the market by somewhere about eight millions. I do not know the exact figure, but you will see when you come to it what a remarkably large figure it is.

436. (*Sir James Begbie.*) You suggest that loans might be given from the paper currency department reserves rather than from the Treasury balances; would loans from that source necessarily ease the market? Suppose, for example, Government were granting loans from that reserve and at the same time accumulating money in the Treasuries to a large extent, then one operation would cancel the other so far as the money market was concerned, would it not?—I should rather put it this way. At present, if the Government were accumulating large balances, it would be taking money off the market and doing nothing to counteract it. If at the same time they lent money from the paper currency reserves it would be counteracting the stringent effect of its taking money off the market by means of its Treasury balances. Then there is a subtle question—I hope you will not press me on it, because it requires a very fine brain to answer it—namely, what exactly is the relation in every sense between the Treasury balances and the paper currency reserve? You see in a sense the paper currency reserve is merely the solid backing of the paper Treasury balances.

437. (*Mr. Keynes.*) Is it not the case that the money in the reserve treasuries is almost wholly in notes?—I think entirely.

438. So that when there is a great deal of money in the reserve treasuries, that means there is more money in the paper currency reserves?—That is so.

439. So that when there are high Treasury balances that shows itself in its being easier to make loans from the paper currency reserves?—That is so.

440. Therefore the two things give alternative methods of effecting the same purpose, not rival ones, as suggested?—Yes. I was trying to put that point to Sir James Begbie, but at the same time to steer clear of a very elaborate discussion of it. I think that owing to Mr. Keynes' kind help now the important part of it is clear, is it not?

441. (*Sir James Begbie.*) Not to my mind, taking it from the money market point of view?—Just allow me to put it this way and I think one can make it clear. At a certain moment we have so much in our reserve treasuries let us say, and then owing to the collection of revenue, and what not, we get, say, an extra two crores in our reserve treasuries, which are two crores of notes. Presumably at the same time that those two crores of notes came into the reserve treasuries, two crores of rupees went into the paper currency reserve as against those notes. If we lent that two crores of rupees it is really just as good as if we lent our two crores of notes.

442. I will give you an example of what happened last year. The Secretary of State last year drew heavily on the Paper Currency Department—that was for the purchase of silver, I think, for coinage. The effect was the same as if a loan had been granted from the currency reserve, and the same as if the money had been lent to a bank and by the bank to the market, that is, the money went out of the currency reserve and went into the hands of the public. At the same time the Government were accumulating pretty large balances in Treasuries. There was a case where you had the same effect as if the loan had been granted from the paper currency reserve, and at the same time you had Government balances going up, so that the one cancelled the other, so far as the money market was concerned?—I should like to look into that in detail and see how far you and I hold the same views as to the effect of it; but I might say this, that if the effect on the money market of the accumulation of the Treasury balances were cancelled under some future arrangement by loans from the paper currency reserves you would at least be better off to the extent of the cancelling.

443. The point I really wanted to make was that the accumulation of money in the Treasury was the greatest factor in forcing the bank rate to a higher level?—I should say that it would cease to be the greatest factor if the balances were accumulated in notes and a part of the reserve held against those notes were lent or deposited.

444. Then loans from the paper currency reserve raise a larger question respecting the suitability of such loans in a country like India, where metallic currency still forms the medium for the great bulk of monetary transactions. Already the reserve in India has been depleted by the removal of several millions sterling to London. A serious problem might arise if in addition the reserves were further depleted by the grant of loans which almost certainly would be taken in coin; you might give such loans from the currency reserve and the money might be taken in notes, but the notes would probably be presented for cash almost immediately?—Exactly.

445. So you would have the risk of loans further depleting the coin reserves of the Paper Currency Department?—I should say that that risk is an extremely remote one. If you look through the figures which Mr. Newmarch gives on pp. 248-9, Appendix VIII., you will see that the lowest amount to which the paper currency reserve fell within the present generation was rather less than 6 crores of rupees. When the amount has gone down as low as that there is a serious risk. Nowadays we have, as you know, a standard of something between 17½ and 24 crores, and if we granted loans from the paper currency reserves perhaps that would have to be raised a little. With any such standard as we have at present I think that the risk of running short of metallic currency, or even of one particular form of metallic currency, namely, rupees, can be disregarded; I am not in any way perturbed about that.

446. Of course, you recognise that the rupee reserves are replenished occasionally by fresh coinage?—Yes.

447. Do you take that into account also, that you might have to coin if you granted loans to a large extent from this reserve?—Supposing that what I may call our critics are right in thinking that sovereigns are as acceptable as rupees, then loans might be granted, either directly or indirectly, in sovereigns, but if the rupee is still, as I believe, the favourite currency of the people of India, then from time to time we should have to coin rather more rupees. But you cannot, if I may so put it, have more money in the country unless you coin more money.

448. There is a risk, is there not, in the further depletion of the paper currency reserve, because you have got to remember that if the reserve in the Paper Currency Department does fall to a lower level, then the reserve of your paper issue will be affected—it may be a remote contingency now, but the risk is there?—I do not know that on this point there is very much trouble. The management of the stock of rupees to

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be held in the paper currency reserve, though it did give rise to some difficulty years ago, is really an exceedingly simple thing. You have to allow for certain risks, and it is quite easy, and I am sure that anyone with official experience would say so, to allow for those risks.

449. You give a statement in paragraph 15 (2) of Appendix I. for the purpose of showing that the Government deposits with the Presidency banks might perhaps be regarded as a high proportion of the capital and reserve and of the cash held. I would like to say that the statement is drawn in an unusual form. I think it is recognised generally that the safety of depositors does not depend on these proportions. I would also like to mention several particulars about the Presidency banks generally for the purpose of showing that there is not the same anxiety, and should not be the same anxiety, about lending to Presidency banks, or depositing with them, which your memorandum rather seems to suggest. I would like to say that the Presidency banks publish weekly statements of their affairs, and that I think is a valuable safeguard for depositors. Then the banks are incorporated by statute which also regulates the business in which they may engage, and which excludes operations in foreign exchange. Then the byelaws drawn up by the directors require the sanction of the Governor-General in Council before they become effective. Another thing is that it is most difficult to get any alteration of the powers of the banks, or any extension of the powers, even to assist the enterprise of public bodies, as was shown when it was proposed to empower the banks to deal with the shares of assisted railways and the securities of district boards. The Government of India deemed it necessary to consult the Chambers of Commerce before they amended the Act as desired?—Perhaps I might say that on the main point I think there is complete unanimity of opinion between us, that is to say, I recognise—and I am sure everyone who has had to do with the India Office or the Government of India recognises—that the Presidency banks are very great and important institutions which render the most valuable service both to the Government and to India generally, and they are bodies of very great strength, who can always be relied upon to meet their engagements. But having taken that for granted, I did draw attention, for what it might be worth, to certain proportions which perhaps have a bearing on the question of the feasibility of large increases of Government deposits. If I gave the impression that it was in any disparaging spirit to the Presidency banks that I mentioned these facts I am extremely sorry; I had no such intention.

450. You also deal with the question of deposits or loans with other banks in India, and you refer to a discussion that took place in Calcutta between the representatives of certain exchange banks and the Finance Member of Council, when the impression given was that the banks concerned would not welcome an extension of the practice of placing Government money with the banks, at any rate if introduced on a large scale. I draw attention to that for the purpose of asking whether it is the case that loans have been given to the British exchange banks by the Secretary of State from the India Office balances—I think you have already said so?—Yes; I gave particulars to Mr. Keynes.

451. The rates of interest at which these loans were given, I understand, were under the Bank of England rate?—I should think ordinarily they would be, because the Bank of England rate is what is properly called a discount rate—the rate for discounting bills. That is rather different from a rate for a loan for three weeks, or whatever it might be.

452. You also deal with loans to firms and institutions other than banks in India, but I think you mentioned that such loans have never been granted so far as you are aware?—Yes.

453. Do you think that loans given to other banks or private institutions would have the same useful effect as loans to Presidency banks?—I see the tendency of your mind, and I agree with you in substance, though perhaps not for the same reason. I think it is

much better, if the Government is going to lend, that it should lend to big banks like the Presidency banks. As regards the effect on the discount rate, I expect it is the case, as you say, that a given loan will be more effective if placed with a Presidency bank than with an individual firm.

454. It would have the effect of affecting the bank rate?—Yes, I should agree with you there. That is a point that had not occurred to me, but I think, if I may say so, it is a very sound point.

455. (Sir Robert Chalmers.) Is it quite certain in your mind that the effect would be different?—It is not quite certain, but I should rather say that if you had to lend, say, 200,000l. —

456. The money would get on to the market?—Just forgive me for a moment—you might lend it, say, to someone like Sir James Begbie, or you might lend it on the other side of the table to Sir Ernest Cable, the owner of a jute mill; I think probably you would have more effect on the money market if you lent it through the bank which would have the option of lending it to the owner of the jute mill than if you lent it to the owner of the jute mill direct.

457. Do you think the money is worth more in the one hand than in the other?—Just consider this: Supposing you lend the money in hard rupees, you know that on every single rupee the ingenious banker builds up a credit superstructure of several rupees, so if we lend, say, 20 lakhs to the Bank of Bombay they would lend against that in the form of banking money perhaps 40 lakhs.

458. What would the jute man do with his lakh if it were lent to him direct?—He would pay his employees, or pay the cultivators from whom he bought his raw material.

459. Would he not pay it into a bank as a deposit to draw against?—He might for a very short time.

460. (Sir Ernest Cable.) It would be used very rapidly, of course?—He would draw it out again to pay for the raw material.

461. (Sir Robert Chalmers.) Would he draw it out and use it more rapidly if it came to him direct from the Government than if he had got a credit at the bank?—I cannot say.

462. (Lord Faber.) If it went through the bank, unless the bank put something on for interest to its customer, I do not see how it would do more for the money market than the jute man would have done?—I should have thought that if you have a choice between paying a certain sum in actual metallic money to a bank or to a manufacturer who, perhaps, will not take the trouble to bank it in the interval between his receiving it and spending it, you would probably do more for the money market by giving it to the banker, who would build up his credit superstructure on it.

463. It is very arguable that the money is the same wherever you lend it, unless you add something on to it and charge for it?—If there is one proposition with which I should not agree it is that money is the same wherever you put it. Money seems to me to differ enormously according to where it is put.

464. (Sir James Begbie.) With regard to the question of council bills, the origin and purpose of the council bill system was for the purpose of remitting money from India to England to meet the actual disbursements of Government, was it not?—Yes, that is right.

465. At the present time Government bills are used for a much wider purpose and a much larger purpose?—Yes, there has been an extension of the system. There has been no change in kind, but it has gradually spread over a larger area of transactions.

466. You use council bills now not only for remitting the money which Government itself requires in London but also against the Paper Currency Department, for example, or sometimes against the gold standard reserve?—We sometimes sell bills, you mean, which the Government of India cannot meet from Treasury balances, and which they can only meet from their paper currency reserve; that is so. A great many questions arise out of that.

467. In your memorandum (Appendix I), so far as I can judge, there is no clear distinction drawn between

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the different purposes for which council bills are drawn?—I would say this, that from the one side they are drawn in order to enable the Secretary of State to meet the various kinds of expenditure which he has to meet in London, both revenue and capital, both immediate and future. That, I should say, is the main purpose; but incidentally the system is so worked as to give certain reasonable facilities and conveniences to trade.

468. In the memorandum presented to Parliament (Cd. 6619) you gave a number of various reasons why council bills were sold in excess of the Secretary of State's immediate requirements, I think?—Yes.

469. You have four different reasons, I think?—Five.

470. Do you not think that these give the Secretary of State considerable range of options when bills are wanted?—If you mean that it leaves him a great liberty of action, yes; but not an unreasonable liberty. Of course, much depends on whether the way he does his business is made clear or is not generally recognised. I think it is a very great advantage that he should, as it were, put his cards on the table and say, This is the way I do my business of selling council bills. I think the India Office have been very keen on making it clear.

471. In the case of council bills drawn against paper currency reserves is it recognised that there should be any special rate on such bills?—No. Of course, such bills would only be sold at a time of great pressure, and the rate would usually be well over 1s. 4d.; but it has not been decided, as was suggested, I think, by one or two Members of Parliament, that such bills should only be sold at 1s. 4½d.—at the maximum price, I think that is the suggestion you are referring to.

472. Yes; it has not been laid down as a fixed rule, has it?—No, it has not.

473. Do you not think that is a necessary measure?—I do not know that there is any great advantage in it. It is, if I may say so, a point of such minor importance that I do not think if good reason were shown the Secretary of State would be obstinate about it. I think the difficulty is that people have assumed that 1s. 4½d. is the real gold point, I mean the lowest point at which gold and council bills compete, and, therefore, there is a peculiar sanctity about it. As will be shown to you in other evidence, that is not the case. The gold point is really a fluctuating point. I cannot see anything very much one way or the other on the proposal that these particular sales shall be at this specified rate.

474. I do not propose to go into that matter further at the moment. As you say, we will probably have that later on. You have told us that since 1904 there has been, for instance, an undertaking to sell bills without limit of amount at 1s. 4½d.; was that undertaking given with reference to ordinary council bills, if I may use the term, against Treasury balances?—Yes.

475. Not against the currency reserve?—No. From the point of view of the public there is no difference. If a man or bank comes and buys a council bill he does not ask from what source the Government of India or the Secretary of State are going to meet the bill; to him it is a simple bill and nothing more.

476. In the case of the council bill sales against the gold standard reserve, I think the point has already been mentioned to-day that the Government were very anxious to get the reserves of rupees collected at that time transferred into sterling?—Yes; that was after the exchange crisis.

477. At what rate did the Government begin to sell at that time against this special reserve?—I do not think that that is a question one can answer exactly, for this reason: In the course of a year one sells bills, say, for 23 millions sterling, just to take an illustrative figure, and then at the end of the year, perhaps, the Secretary of State says, For my Treasury purposes I am satisfied with 18 millions of these proceeds, therefore I will appropriate the odd five millions to the gold standard reserve and invest that five millions. But one does not day by day or week by week as one sells a bill say, This is sold against the

gold standard reserve. The appropriation is done just as one makes up a balance sheet for a bank at the end of a period of half a year or a year, as it may be.

478. In this particular case sales against the gold standard reserve were bills sold under 1s. 4d.?—These bills to replenish the gold standard reserve were mainly sold in 1909–10, I think, and the average rate in 1909–10 was for the first six months of the year 1s. 3·951d., and for the entire year 1s. 4·041d. I think some of them were sold in 1910–1, but I am not sure of that for the moment, and the average rate was 1s. 4·019d.

479. In the year before that were there any sales against this reserve?—Yes, at 1s. 3·931d. I am not sure whether anything was sold to replenish the reserve in the earlier of those two years, but I shall be able to tell you by looking it up.

480. In the case of the gold standard reserve, that was a fund established for the purpose of supporting exchange, and of preventing exchange falling below a certain figure?—Yes.

481. That came into use in 1907–8?—Yes.

482. And a very large amount of rupees were collected in India in consequence of the sales of bills in India on London, the rate at which that was done being 1s. 3½d.?—Yes.

483. That is the outward gold point, I understand, or what is supposed to be it?—Yes.

484. If that fund is used in that particular way to prevent exchange from falling, should it be used in the opposite way at anything below the gold import point?—I have heard that argument, and I must say that to me it is extremely unconvincing, if you do not mind my saying so. You use this gold standard reserve in order to prevent the rate of exchange from falling below what you call the outward gold point, or the gold exporting point; and it serves its purpose. You find that fund is for the time being useless for further application because it is not in rupees. Then the important thing is to get it home again, or at any rate to get it again in the sterling form in order that it may serve the same purpose a second time if the occasion arises. If you could do so, keeping the exchange within the gold points, if I may use a technical expression, you have obviously done a very great service in removing the risk of a future fall in exchange. If you are yourself to be prevented from doing that by some scruple against selling your bills at 1s. 3·999d. when you think you ought to sell them at 1s. 4·001d. then you are sacrificing the weightier matters that you ought to look after to a consideration that is of very little weight, if indeed of any weight.

485. Are you not breaking through your own arrangement about the gold standard? You fix the standard with the exchange at 1s. 4d.; if you use this special fund to import money below your gold standard is that not going against your gold standard policy?—I think I might answer that both practically and scientifically. Practically, I would say that if you had to manage the Indian exchange system, and currency system, I am quite certain that you would do exactly as we did, and I think if you ask yourself, Sir James, you will say that that is so too. Scientifically, I would say that when you have a par of exchange between two countries with an upper gold point and a lower gold point, the natural thing is to carry on your ordinary transactions in your ordinary way so long as your exchange is between that upper gold point and that lower gold point, and to stop your transactions when the rate falls somewhere between the par of exchange and the lower gold point has no justification. I am certain it has no practical justification, and I do not believe that anyone has ever put forward any theoretical justification for it.

486. At any rate, I understand that in managing the sale of these council bills the rate of exchange is not specially considered as regards whether the sales should be made at or over the 1s. 4d. point?—What I think I said in answer to Sir Ernest Cable is that one would ordinarily sell at or above 1s. 4d., but the Secretary of State has that latitude that at times he sells between 1s. 4d. and 1s. 3½d.

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487. And that is a latitude which he exercises not only in the case of Treasury drawings, but also in the case of drawings against the paper currency reserve and the gold standard reserve?—As regards the paper currency reserve, I do not think he would, for this reason, that, as I said to you, it is only when there is a great pressure for exchange on India that he sells against the paper currency reserve, and then *ex hypothesi* the rate would be higher than 1s. 4d.

488. In paragraph 28 of Appendix I. you quote from paragraph 70 of the Report of the Indian Currency Committee of 1898–9, but, I think, condensing the paragraph which you quote. You say, “It is eminently desirable that in order to assist towards the speedy establishment of an effective gold standard in India the Government of India should restrict the growth of their gold obligation.” I rather think that the paragraph quoted contains a good deal more in it?—I assumed you would have it before you when you read this; but I have not left out, I hope, anything that is material to what I was putting. I have the report here.

489. I was going to say that it includes the idea that capital should be encouraged to flow freely into India for the further development of her great natural resources; whereas in this paragraph of your memorandum I understand you to recommend and to support the idea that the Secretary of State should encourage the flow of gold from India?—I do not think that that is a natural construction of anything that I have said.

490. You refer in paragraph 28 “to the general advantage of restricting, as far as may be, the growth of a country’s external debt and to the practical difficulties attending the issue of large annual loans in London on behalf of the Government of India,” and you say, “the Secretary of State endeavours to obtain from funds provided in India as large a proportion as practicable of the money required for each year for expenditure in England on account of India.” If you increase the amount of council bills, do you not encourage the flow of gold from India? You may not actually make the gold flow from India, but you prevent gold from coming in?—Yes.

491. You increase the gold obligations, do you not?—I do not think that we are in the same region of the subject. You are speaking about gold actually going to or from India, and on all that you say there I think I agree up to a point. But in this paragraph the Fowler Committee were discussing the importance of not increasing India’s external debt, and the annual interest that she had to pay on her external debt; and when I was preparing this memorandum it occurred to me that some very important things might be conveniently linked on to that remark of the Fowler Committee. Where you are speaking of gold obligations with reference to the Fowler Committee, that is a question of loans; this particular part has nothing to do with the gold currency.

492. The idea of that paragraph, as I read it, was that the Fowler Committee recommended a gold standard, and the gold standard was to be associated with stability of exchange, and so on, and capital should be encouraged to flow freely into India. That is, as I take it, the meaning of the paragraph; and when they said that they suggested the growth of gold obligations should be restricted, I understand they meant that loans out of India should not be encouraged more than necessary?—Quite so.

493. But in paragraph 28 of Appendix I. you point out that the Secretary of State endeavours to obtain money from funds provided in India for the expenditure in England, and if you take the case of the last two or three years you will find that the amount of money which the taxpayers in India have had to pay for export to London has been very great indeed—much larger than in previous years?—Let me see that we are quite on the same ground. I will tell you, if I may, the connection between these two things. The Fowler Committee said, keep your sterling loans as low as possible. That was a wise thing to say, and the reasons given were good reasons in those days. I put in my memorandum that the advice is still good

advice, but I point out, and I am sure most people would agree, that the reasons why it is good are rather different from what they used to be. Then I say, if you are to carry out this good advice, which remains good, though for changed reasons, provide as much as possible of the money you are going to spend from resources raised in India. Surely that is a faithful following of the precepts of the Fowler Committee.

494. Take it this way. During 1910–1 and 1911–2 I understand the amount of council bills remitted from India to England was roughly 24 millions sterling—we will say 8 millions in excess of the ordinary amount?—You have the figures exactly.

495. That is to say, the taxpayers in India were paying 8 millions sterling in excess of what they usually have to pay; that represents, if you capitalise it, borrowing to the extent of about 200 millions sterling?—Really, I cannot follow you there, partly because the taxpayers are not paying a penny more. The scheme of taxation, you may take it from me, is not made with reference to the sale of council bills, or anything of that sort; it is made with reference to the desirability of having a moderate surplus of revenue over expenditure. That scheme of taxation has as a result at certain times of giving the Government of India extremely large sums of money. That is perfectly simple and familiar, is it not? Then the time comes when we have to consider: We want to spend so many millions on railway materials in London; shall we get the money by bringing over our surplus money from India, in which case we shall not pay any interest, and we shall not be increasing our gold obligations, and we shall be obeying the Fowler Committee; or shall we take the alternative course, which I hope you do not recommend, of issuing a large loan in England while allowing our rupees, which we could use, to lie idle in India? I have explained that the Secretary of State always, and rightly, prefers, when he can, to avoid issuing the big loan in England, and, in preference, to get money by remittances from India—of course, when he can do so, I mean, without sacrificing any Indian interest.

496. (Chairman.) In other words, I understand that what the Secretary of State does is to pay for these railways out of revenue whenever he can instead of increasing his capital account?—Out of the surpluses which are the result of revenue transactions.

497. (Sir James Begbie.) These surplus revenues have been very large lately?—Yes, they have.

498. (Sir Robert Chalmers.) But it has at times been the other way?—Yes, it has.

499. (Sir Shapurji Broacha.) Is it not inconsistent to say that the Government will lend at the bank rate and yet that the Government will not lend because the money would not be forthcoming when wanted? I do not talk of 22 millions because I know that it is difficult to lend 22 millions in India. Still, it is not difficult to lend 4 millions or 5 millions or 6 millions?—When you say it is inconsistent, what exactly do you mean?

500. You do not assign any limit to the Government lending at the bank rate, do you?—At what stage do you mean that we do not assign a limit? I am not sure that I see exactly at what point we are inconsistent.

501. You pay brokerage for lending money, and the Secretary of State deals through a broker, and is not a guarantor for the borrowers of the money. Do you think a bank which takes the responsibility of guaranteeing the loans would do without some brokerage or commission? Is that not inconsistent?—If I understand you, you think that if we lend to the Presidency banks we ought to lend at less than the bank rate?

502. Yes, as some commission for guaranteeing the loans for the public, because the Presidency banks deal with the public?—I see great force in that, if you will allow me to say so. That is about as far as I need go at the moment.

503. I think that despatch of 1874 on pp. 30–31 of Appendix II. is ancient history so far as the monetary conditions of India are concerned. The deposits since then have increased 800 to 1,000 per cent.; since 1892

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the circulation has quadrupled, and since 1909 the circulation has doubled. Is there not, therefore, certainly some distinction which the Secretary of State ought to consider between the India of 1874 and the India of 1913?—No one would hold that more strongly than I do. I was merely going to mention to you that in all these matters we are to some extent tied to the history. If you come to the history of why we do this, that, and the other, the history leads back ultimately to a very remote and useless period.

504. I am talking only of Indian balances; I am not talking of London balances. We know that the revenue does not come in freely until after December, and we know that between June and December money is going begging at 2 per cent. For the last three years I have been borrowing for six months money at $1\frac{1}{2}$ and 2 per cent. on Government paper in India between those months, and it is only when the money commences to go into the treasuries in payment of revenue and the money market is depleted that the price goes up. If you will kindly look at the figures in Appendix II., page 76, you will see that on March 31 you had balances in the treasuries in India amounting to $19\frac{1}{4}$ millions, out of which you have put $3\frac{1}{2}$ millions with the Presidency banks; that leaves in the hands of the Government something like 23 crores of rupees?—Yes.

505. Or 13 crores more than the minimum balance which Sir James Westland and others have required?—Yes, but do not quote him as the standard. Your case, if I may say so, is a strong one from your point of view, but I do not think you strengthen it by comparing it with Sir James Westland's standard, which is rather obsolete.

506. If of those 23 crores 3 crores had been lent to the Presidency banks, money would have gone down to 2 per cent., and yet India and Indian trade has been suffering very much now through want of money, because the money has gone into the vaults of the Treasury?—Perhaps I might say this, which would help possibly: The Secretary of State has been approached by various correspondents who point out to him—

507. Do you think that with all these advances in the Indian money market India is still to be considered to be in as beggarly a condition as in 1874, and therefore is not to be trusted with a little more money? Is all the wisdom on this side here?—It is not a question of trusting. The whole question is one, or very largely one, whether it would do a money market good or harm or more good or more harm to get money from a somewhat uncertain source.

508. There are now 14 millions in the Bank of England belonging to the Government; suppose that they were withdrawn, what would the other bankers say?—Are there? Is it the Government debt, or what?

509. It is just the same as if it were in the Presidency banks—nothing more or less. Do you know that the Indian Presidency banks are regulated by the same rules now as the Bank of England in the matter of lending, and that it must be wholly on authorised securities, trust securities?—I think they are more tied up than the Bank of England—much more.

510. Will you show me any other Government that takes into the Treasury all the balances of the public and allows the people to starve, because of an event which happened 40 years ago?—I can show you the American Government; however, I do not say that it is a good precedent.

511. Has the Secretary of State considered the advisability of lending more freely to India now that the circumstances have changed?—As I explained, it was considered in 1899 I think, or 1900; but since then his natural advisers in the matter, the Government of India, have not approached him on the subject.

512. I only want these points to be brought before the Commission for their consideration. In the matter of council bills I do not think the council bills impede the flow of gold. I see that you sold last year council bills to the extent of 25 millions, and you imported gold equal to 31 millions, 19 millions being in sovereigns, and about 12 millions in bars. Surely that does not mean that this selling of council bills above

the allotted amount impeded the flow of gold? I think any country importing 31 millions of gold would have something great to boast about?—In a sense you are defending the India Office against its critics, but I think you are defending it almost too wholeheartedly.

513. Do you know that the import is not always from here? From Australia we can bring gold and also from Egypt cheaper than from London. I think in this respect, therefore, that the Secretary of State was right in selling council bills for his requirements?—I venture to agree with you on that point; I quite agree that you cannot work to a supposed gold point when it is a very shifting thing.

514. Taking these 22 millions that you have accumulated here, of which the balance now remaining is only 4 millions, if that money had been sent to India it would have had to be brought back to pay the anticipated demands of the Secretary of State here?—I have argued that in my memorandum (paragraph 50 of Appendix I., &c.).

515. Since you are against lending it in India, I do think this money should have fertilised in the shape of interest?—You may have noticed in my memorandum and the supplementary notes that I have dealt with that very fully (see Appendix I.).

516. The advisers of the Secretary of State consulted the City money market in 1908, if I remember aright, as to how much they could borrow in England for Indian productive works, and whether they could borrow in advance, and the City advised that whenever the market is easy they should borrow for one, two, or three years together?—We consulted the City, that is to say, some very eminent financiers, about railway borrowing and so on,* and we got a great deal of advice, very largely discordant, and much of it I can assure you has been belied by subsequent events. So you cannot base anything on those incidents.

517. Therefore, I think that after keeping enough for the legitimate needs of Indian trade, any surplus that then remains in hand, if it could be placed out without detriment, in England, it should have been done, India being a debtor country just as Japan is and Russia is; do you agree to that?—I do not like to lay down a very general doctrine about any matter of this sort. I hold to my own view that the Secretary of State ought, as far as possible, to bring home from India what he wants to spend on behalf of India in this country, and that he ought to do it sometimes in advance, because otherwise he may not be able to do it at all.

518. As you know, trade is provided for in India in two ways—the internal trade by the Presidency banks, and the external trade by the exchange banks; therefore ought not the exchange banks to be helped in bringing out money to India, as the Presidency banks are to be helped for carrying on the internal trade?—Yes.

519. I think the conditions obtaining in India do not obtain here. In India the Government have to keep a large balance for contingencies, while in England the Government may be indebted and have no balance at all, but that is because they have a larger market to depend upon?—That is so.

520. (Sir Robert Chalmers.) That has nothing to do with the surplus balance?—No. I think Sir Shapurji was speaking there really with reference to the working balance.

521. You want a larger percentage in the form of a balance in India I gather?—Yes.

522. That balance would be needed?—Yes.

523. (Sir Shapurji Broacha.) Really the credit of the Government of India has not declined or depreciated at all, but I think English capital has become bolder within the last eight or ten years, and is seeking for a larger rate of interest?—The causes which have led to the fall in the price of Indian securities which, as Lord Kilbracken has said, is a better phrase than the decline of Indian credit, are very varied.

524. When you borrowed 5 millions at 95 for the railways, why was not that loan offered in India? It

* See in this connection Cd. 4111 (Report of the Committee on Indian Railway Finance and Administration).

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would have gone off like anything at par?—I would rather not be understood to accept that.

525. Of course with the consent of the Secretary of State the Southern Mahratta or some other railway company offered their 4 per cent. loan at 99 for a fixed period, not for a period that the Government might choose to observe?—This loan that you speak of was issued at 99, and the rate of interest was 4 per cent. You suggest that it might have been floated with much greater advantage in India. I can only assure you that the Secretary of State is very much alive to the importance of doing his borrowing in India; he is continually consulting the Government of India about it, and he must be to a great extent, as he is in fact, guided by their advice.

526. In this case I think he was badly advised. As you know, we have 4 per cents. standing at 102 or 103, our Improvement Bonds for instance?—I have had the opportunity of discussing with your neighbour, Sir James Beggie, some of these points on a previous occasion and I very much doubt if I take him and you as two eminent Bombay financiers, whether he and you would come to the same practical conclusions on these points that you are now discussing.

527. Have you well considered the question of a State bank; is it not a large order?—I have considered it to some extent, and I hope, as I said, to write a note about it later on.*

528. The Bank of England does the business efficiently of the British Isles; suppose the Bank of England had to do the business of the Bank of France for the French people, and the Bank of Germany for the German people, and to do the same service to Italy that the Bank of Italy does, and so on, taking the whole of Europe right up to Moscow; do you think that one State bank could be established to manage such a large extent of business? As you know, the population of India is just equal to the population of the whole of Europe, except perhaps half of Russia, and as you also know, there is less difference between English people and Italians than there is between the people of the north of India and the people of the south of India. Do you think that that large order could be established brand new without an evolutionary period?—I have always recognised that one of the great difficulties in the way of a State bank is that it would extend over so large an area, that is to say, the whole of India, and over an area which has hitherto for banking purposes been divided up into three distinct territories. You will see when you read these papers of 1900 and 1901, to which reference has been made once or twice, and which are being printed for you,† that the whole scheme of those years for an amalgamated and central bank broke down in consequence of what we called in our jargon provincial and local jealousies. I quite realise that, as you say, the same cause may wreck any future scheme. But I do not think one need begin with the assumption that the mere diversity of interest and the mere size of the area will necessarily be fatal to the scheme. That is all really that at this stage I can say on it.

529. Have you considered the location of such a bank, whether it should be at Calcutta or Delhi, say?—That is rather a matter of detail which is beyond my province. If I say Calcutta, I could not give any very full reason for it, but Calcutta is what would occur to me as a possible place.

529A. (Lord Faber.) All the State banks have a large number of branches?—Yes, but I think Sir Shapurji is thinking of the head office; at least, I imagine that is his point.

530. (Sir James Beggie.) With reference to the opportunity of purchasing bills and telegraphic transfers on India as an alternative to consigning gold for the discharge of the trade balance due to India, that is stated to be a great convenience to trade; that is a phrase which occurs pretty frequently throughout these papers, and I would like to ask you what you understand by the trade. Do you refer to any section or do you refer to the trade of India as a whole?—That is a

very interesting question, because one never knows exactly how far influence extends. If one traces the influence from its source, it would first affect the people who buy our council bills, who are the exchange banks, and perhaps one or two big firms. No doubt it is well known to you that Messrs. Ralli, who are very large merchants, buy our council bills. I think it would be a very controversial thing to say that they are the only people who benefit by our sales of council bills to them. I should say that really all the innumerable people with whom they are connected, either directly or indirectly, the big importers, the big exporters, the producers who are, as it were, low down on the distant horizon, must surely all benefit if a convenient and rapid method of making remittances is used instead of an inconvenient and slow and cumbrous method. I think that is the real answer to that question.

531. It is a section of the trade which gets the advantage of the sale of these council bills, is it not—the export trade?—That is the trade which first benefits, and certainly it is the export trade, including the big houses, the producers, and so on, which probably gets the greatest advantage.

532. The internal trade only comes in as a secondary matter?—I quite agree with you there. I think I said in answer to one Commissioner that though council bills are a remedy for some cases of stringency which are due to the activity of the export trade, there may often be troubles and tightness of money in the Indian money market due to other things for which the council bills afford no remedy. I think on that we are at one.

533. (Chairman.) How are the approved borrowers chosen?—That is a subject which is rather Mr. Badock's speciality, but I can tell you in general terms. At the present time any firm wishing to get on to our list would, in the first place, ordinarily approach the broker, Mr. Horace Scott, whom probably you will be examining. He would report the application to the Accountant-General of the India Office. Then information would be gathered, partly by the broker and partly by the chairman or members of the finance committee, as to the general trustworthiness of the firm, its capital, the class of its business, and so on. Then the recommendation would be made to the Secretary of State and the council that such-and-such a firm be admitted; further, it might be specified that the limits to be imposed on loans to be granted to that firm should be so-and-so. If that were approved—and there is no doubt it would be if it were supported by the finance committee—then the firm would be on our list of approved borrowers. Perhaps I ought to say, to make it complete, that formerly that sort of matter was much more in the hands of the chairman of the finance committee as an individual, but now the full procedure that I mentioned is gone through.

534. (Sir Shapurji Broucha.) Returning to the 31 millions that I spoke about to you just now, did not the whole of that, except 4½ millions, go into circulation or into the hands of the people last year?—I think a great deal of it was gold bullion, which would not go into circulation. It would be merely used as bullion.

535. It has gone into the hands of the people?—A small amount has gone into Government treasuries and that amount is given in the various statements.

536. (Chairman.) It has gone into use but not into circulation, I understand?—The bullion has gone into use or disuse, and the coin has either gone into circulation or hoards, or is used for other purposes.

537. May I come back for one moment—and I hope it will only be for a moment—to the question of the sale of council bills and the amount of them which is sold? Shall I be correct in saying that the amount of council bills that is saleable depends upon the trade demand for them?—Quite so.

538. Should I be correct also in saying that the Secretary of State sells to the full extent of the trade demand?—Yes; subject to the limits of price which, as it were, govern and regulate the demand, I think that would be quite correct.

* See Appendix XIV., page 339.

† See Appendix XV., page 355.

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539. I think he does so, because even if he brings home money in excess of his immediate obligations it is money which in his opinion is not needed in India and which can be usefully employed for India in London?—Yes. The only criticism I would make on that is that he does not form the opinion whether it is needed in India; he is guided in that naturally by his advisers, the Government of India.

540. It is money which, in the opinion of the Indian Government, is not required there, and which, in the opinion of the Secretary of State, can be usefully employed for India's interest here?—Yes.

541. Meaning by that, not her trade interest, but the interest of India as a whole as represented by the Government?—Yes.

The witness withdrew.

At the India Office, Whitehall, S.W.

THIRD DAY.

Thursday, June 5, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Lord KILBRACKEN, G.C.B.
Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.

Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Mr. LIONEL ABRAHAMS, C.B., recalled and further examined.

542. (*Chairman*.) I propose to-day to turn to the question of the gold standard reserve. In the course of our reference we are directed to inquire into the steps taken with regard to the location, disposition, and employment of the gold standard and paper currency reserves, and whether the existing practice in these matters is conducive to the interests of India. You have handed in a memorandum entitled "The Gold Standard Reserve" with a supplementary note, and some correspondence and statements in illustration of what you have written?—Yes.

543. We may take those, I think, as part of your evidence to be printed with our proceedings?—Yes. (*See Appendices III., IV., and V.*)

544. I think I am right in saying that when the reserve was being set up in 1900 the view of the Government of India was that the reserve to be established should consist entirely of gold?—Yes.

545. And that that gold should be held in India?—Yes.

546. But the Secretary of State decided that it should be held in London?—Yes, that is so.

547. He further decided that it should consist in part, though not entirely, of sterling securities?—I think that at the time to which you refer the Secretary of State decided that it should be held in sterling securities wholly. That was the decision of 1900.

548. Could you give me in outline the reasons for the Secretary of State differing from the recommendation of the Indian Government?—In the correspondence (*see Appendix V.*) the decision is given somewhat briefly, but I think that if you read it, and especially do so in the light of subsequent events, you can see why the Secretary of State differed from the Government of India's view, and why he was right in rejecting that particular scheme which was put before him. You will notice on page 109 that in 1900 a long despatch dated 6th September, No. 302, came home from the Government of India with two long notes by Sir Edward Law and one by Lord Curzon. Generally speaking, omitting certain matters which are not really material to your present question, the proposal regarding the gold standard reserve was that it should be held in gold, and that from time to time the gold from the gold standard reserve should be passed into another reserve, the paper currency reserve, and given to the public in exchange for rupees whenever the

public desired it. It is clear, and I think most people would admit it, that if that course had been followed the results might have been very serious—that is to say, the gold would presumably have been dissipated in good times; instead of being held as a reserve for bad times to meet a period of unfavourable trade, the gold would have been passed into the general circulation and would have been of little or no use when a crisis came requiring the use of a very large central stock of gold at very short notice. I imagine that the perception that this scheme would have frustrated the object for which the reserve was established, must have been the reason why the Secretary of State rejected the scheme. Of course, what I say does not refer to subsequent and different schemes for holding the reserve in gold in India; it refers to the particular scheme that was then before the Secretary of State.

549. The Fowler Committee* reported in paragraph 59 in the following words:—"We regard it as "the principal use of a gold reserve that it should be "freely available for foreign remittances whenever "the exchange falls below specie point;" do you accept that view?—No, not entirely. I think that that is the most valuable use of a gold reserve, but the practice which has been followed has been to use gold for another purpose, namely, to feed the internal circulation. I think that the Fowler Committee themselves meant that gold held by the Government of India should be used for two distinct, and you may say, conflicting purposes—partly to be dissipated, if I may use that word, in good times so as to provide the population of India with a gold currency; and partly to be hoarded up in a central reserve for bad times so as to be available for meeting a fall in exchange.

550. (*Sir Robert Chalmers*.) Do you think that those considerations in that form were before the Fowler Committee? Did they look quite as far ahead as that?—I am not sure whether they put the two facts together and saw their mutual relation.

551. Their primary purpose was to provide for maintaining the exchange?—By means of a central reserve of gold.

552. That is a question?—That was a purpose they had in mind; and they also had, I think, a different

* C. 9390.

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purpose—of establishing somehow or other a gold currency in India.

553. Do you think they went so far as that at that time?—I do think so, because there are various passages in their report—not the passage which the Chairman read—which say that India ought to have the normal accompaniment of a gold standard, namely, a gold currency.

554. (Chairman.) Will you direct my attention to any paragraph in that report which indicates that the gold reserve should be used, in your words—and I think I am quoting your words—to feed the internal gold circulation of India in times of good trade?—I do not think that they used the words that the gold reserve should be so used, but I think I should be able to find you passages in which they said that a gold currency was desirable.

555. I am quite certain that you would find that, and to that point we will come later; but do you think that that is synonymous with saying that the gold reserve is to be used for the purposes of supplying the gold currency?—I do not think it is synonymous with saying that, and perhaps I am putting a gloss on what they said in the light of the knowledge we have since acquired, which knowledge shows that the way in which the internal circulation of gold can be kept up is by passing gold out of various reserves held by the Government. That is how it has habitually been done. I think that there was, if it is not too pedantic a phrase to use, a certain latent contradiction in the minds of perhaps some members of the Fowler Committee. I do not think that they perceived entirely how the two objects of keeping a central reserve for one purpose and encouraging the active circulation of gold for another purpose were to some extent in conflict.

556. In the course of their recommendations they said, "We are in favour of making the British sovereign a legal tender and a current coin in India. We also consider that, at the same time, the Indian mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian branches of the Royal Mint."* Has either of these things been done?—Yes. Gold was made a legal standard at the rate of one sovereign for 15 rupees in 1899, almost immediately after the presentation of the report of the Fowler Committee. As regards the opening of the Mint you have, no doubt, the Parliamentary Paper† containing the correspondence and a note‡ that I have submitted mainly for the object of piloting the Commission through that rather long correspondence.

557. Was it not to those means that the Fowler Committee looked for the supply of gold for currency purposes in India?—I do not know whether they failed to perceive—they may have done—that, under the regulations that were in force at the time that they reported, the gold would come into Government treasuries or Government reserves, and would then naturally go out into the general circulation. I think it is better to assume that they did perceive that that draining out of gold into the internal circulation was an inevitable consequence of the arrangements that were in force when they wrote their report. It is extremely difficult, as you will understand, to disentangle what they thought as to how the scheme that they put forward would be actually worked out, and how far they foresaw the way in which events actually did tend in subsequent years.

558. In your opinion, then, is it a necessary consequence of the policy recommended by that Committee that the gold standard reserve should be available for both purposes—both for foreign remittances and for the feeding of the home circulation?—No, I do not say that. The second passage which you read referred, I think, not specifically to the Gold Standard Reserve, but to gold reserves generally. I should imagine what the Fowler Committee had in their mind was that the Gold Standard Reserve should be the one which was to be hoarded up by the Government as a Central Reserve for times of difficulty, but that other gold reserves should be used as the

paper currency reserve has actually been used for the other purposes mentioned.

559. To hold part of the Reserve in securities was, I take it, a departure from the strict recommendation of the Fowler Committee*?—I should not accept that view, if I may venture to differ. The matter has given rise to so much controversy that I should like to put forward my own view somewhat in detail. If you read not only the Report of the Fowler Committee but the many other papers that are before you regarding the Gold Standard Reserve, you will see that continually gold is used in two quite different senses—it is unfortunate that it should be used ambiguously, but there is no doubt that it is so used. One meaning, of course, is metallic gold; the other is sterling assets—including securities. Before I go on to say what I think the Fowler Committee meant, I would like to draw attention to one or two passages where gold is obviously used in the wider sense. In paragraph 70 of the Fowler Report* they say that the Government of India should "restrict the growth of their gold obligations"; it is quite clear that they did not mean obligations which were payable in metallic gold. What they meant was obligations incurred in the way you are familiar with, by issuing stock and taking cheques in payment for it, the interest on which is paid merely by dividend warrants in the paying of which not a single sovereign changes hands. That is one passage I would refer to as showing the wider use of the term gold, as meaning sterling assets including securities. Then I notice, as illustrating the general usage in this matter, a letter from the Government of India which is printed in the correspondence I have handed in (No. 89, 1st April 1909, Appendix V., page 168). In paragraph 4 the Government of India submit a calculation of the sterling assets that they lost during the exchange crisis of 1907–8. The letter says: "During the period from November 1907, when exchange first fell substantially below 1s. 4d., until the end of January last we lost 15 millions of our gold," and then they give it under three heads—Gold Standard Reserve, Currency Gold in England, and Government Gold held in India. The two latter items call for no comment, as they were actually metallic gold. In regard to the first item, Gold Standard Reserve, the loss of gold there was really through the selling of certain securities and the using of the proceeds in order to pay certain bills. I know that in the whole of these transactions, which involved the payment, the Government of India say, of rather less than 7 millions but really of more than 8 millions, not a single sovereign changed hands. It was entirely what I should call a sterling transaction, but not a gold transaction. I draw your attention to that merely to illustrate that according to general usage gold has a double meaning—first metallic gold, and second sterling assets, including securities, cheques and so on. That is the only reason why I mention this point, but it is an important one. If you accept these two meanings of gold, then the question is, did the Fowler Committee intend the narrower meaning of metallic gold to be put on their statement? One would naturally turn either to any record of their meaning or to anything that could be gathered from the opinions expressed by members of the Committee subsequently. As regards any record of their meaning I think you will find that there is nothing on the subject in their Report or in their evidence, because the Committee was considering quite different questions—whether the Mints should be reopened and whether the rate of exchange should be 1s. 3d. or 1s. 4d.; and this question of the formation of a Gold Standard Reserve was at that time an extremely unimportant one, and they gave very little time to it. My recollection, since I had some little share in drafting the Report, is that the instructions that were given in order that the Report might be drafted were that these profits of coinage were to be held in a sterling form and not in a rupee form, so that in case of a fall in exchange they could be realised in sterling and used in London. I may say that some time ago I asked Sir Robert

* C. 9390, paragraph 54.

† H.C. 495 of 1913.

‡ Appendix VI., pp. 212–6.

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Chalmers, who was the Secretary of the Committee and whom I helped in that matter, and his recollection confirmed mine. That I think is all that can be said about what the Committee as a whole did; but I should like to draw your attention to certain things said and done by individual members of the Fowler Committee since the Committee itself was dissolved. In 1900 the decision was taken by the Secretary of State to hold this Reserve in securities, not in metallic gold. At that time his finance committee, on whose advice he largely acted, included Mr. Le Marchant, who was one member of the Fowler Committee, and Sir Charles Crosthwaite, who was another member. It is really inconceivable that if they had meant metallic gold in 1899 they should in 1900 have forgotten that, and have submitted to the Secretary of State a despatch in which, when he adopted it, he said to the Government of India the Reserve was obviously one which should be held in securities. That gives the opinions of two very leading members of the Fowler Committee, and I can give you the opinion of a third member who is of great eminence in these matters—Sir David Barbour, who recently published a book called the *Standard of Value*,* which I dare say you have seen, dealing very largely with the history of Indian currency. Although I have not brought with me a passage to quote, you can see if you read that book that over and over again he refers with approval to what has been done in the matter of the Gold Standard Reserve as carrying out properly the recommendations of the Fowler Committee. I have given the opinions of those three members. As regards the others, I have not had any opportunity of acquainting myself with their views on this question, which has been raised comparatively recently.

560. In the despatch from the Secretary of State to the Government of India, dated 13th December 1900, in Appendix V., page 126, it is arranged that the profit on the coinage of silver should be at once remitted to London and held in London by the Secretary of State; can you tell me why the India Office rejected the suggestion of the Government of India that the gold should be held in India?—I think that in answering the previous question I summarised what I understood to be the effect of Sir Edward Law's scheme, and showed that I thought it would have frustrated the object with which this gold standard reserve was created and was to be held. I assume that that was what was in the mind of the Secretary of State when he rejected that scheme.

561. I think you have said that it was an objection, so to speak, personal to that scheme?—Yes.

562. Rather than to possibly holding gold in India under different circumstances?—Yes.

563. The system of remitting gold to England and investing it entirely in Consols was pursued from 1901 to 1903, was it not?—Yes, but of course it was not remitting gold, if I may correct you there. That, by the way, if you do not mind my saying so, is a very good illustration of how gold is used in a wider sense than that of metallic gold. These remittances, I think, were in some cases effected by the transmission of actual sovereigns, but the more usual course is, and has been, to bring the money home by the sale of bills. The investment in Consols, I think, was the only form of investment until 1903. In Statement C, which you will find at the end of Appendix III., pp. 99–102, you will see that in 1901–2 Consols were bought, in 1902–3 there was a further purchase of Consols, and also in 1903–4, but that in 1903–4 a departure of some importance was made when National War Loan stock, which, as you remember, was a terminable stock, was bought instead of permanent securities.

564. At whose instigation was that change made?—My recollection is that the general change of policy, that is to say, the decision to put more money into terminable securities and less into permanent securities was made in a private and unofficial way by Sir Edward Law. He used often to write to me on these subjects, and he made the suggestion, and I put it before the Secretary of State. I cannot tell you the exact date of his letter, but it was about that time, I think.

565. Do you happen to know whether Sir Edward Law had changed his opinion on the question of holding gold since those days? I have seen it stated that he did?—My knowledge is largely based on this: When Sir Edward Law was financial member his financial secretary was Mr. Finlay, whose name I dare say you know. Mr. Finlay was telling me some time ago that Sir Edward Law was quite content with the idea of holding money in securities, and he did not think there was any disadvantage in the putting aside of his original proposal to hold it in gold. That is merely information which I got in conversation, so it is not in the strict sense of the word official, but I think you may take it that it is correct.

566. To the best of your belief that was his opinion up to the end?—I believe so. I often discussed these matters with him because I knew him very well.

567. One of your tables, I think, shows the way in which you invested the gold standard reserve?—Yes, Statement G. of Appendix III. (pp. 99–102).

568. Will you tell me briefly what were the proportions between the different constituent parts?—It is a little difficult to condense these statements, which go over many years, but I think I can best answer your question by saying that until 1906 the whole of the gold standard reserve was normally held in sterling securities in London. You will see in Statement A. of Appendix III. (page 97) that there were temporary holdings of gold in India; but that gold was held in India pending remittance to London. In 1906 the policy of holding a portion in silver was adopted, and finally of holding it in coined rupees. There is a long history attached to that which no doubt you will go into later.

569. The policy was adopted in 1906, you say, of holding part of it in rupees?—Yes, first in silver, half-coined rupees, and then in coined rupees.

570. And that portion of the reserve was held in India?—Yes. The next change, I think, was when it was decided in 1909 to hold about a million in what is called in Statement A. of Appendix III. cash at short notice, that is to say, money lent for a few weeks at a time on securities so as to be able to be called in very rapidly. The final change that has been made is that in 1912 the Secretary of State decided, for reasons which are given in the papers before you, to accumulate a certain amount in gold in London, and that accumulation is going on now. We have reached about 1½ millions, and the present intention is to allow it to rise to five millions. I have not given you the nature of the securities; I do not think at this moment you ask for that information.

571. No; that is sufficient for the present. In paragraph 3 of the letter from the Government of India of the 26th April 1906 (see Appendix V., page 137) it is stated, "The depletion of our balances in India also embarrassed the Secretary of State in England, as, for example, when we had . . . to press you to transfer gold from Treasury to currency, though advised that the withdrawal of gold from the reserves of the Bank of England would be inopportune." That appears to be a suggestion that the interests of India at that moment had to be sacrificed to the interests of the London money market; have you anything to say about that?—I am very grateful to you for asking that question, and since it is a matter on which much has been said, perhaps you would allow me to answer it in detail. What happened on that occasion is set forth in a series of telegrams which you will find in Appendix V. (pp. 136–7), of which I should like to give you a summary—they are very brief. On the 15th December 1905 the Government of India telegraphed to the Secretary of State, asking him to transfer half a million sterling to his currency chest; that is the operation which is commonly known as earmarking gold. The Secretary of State said that what was necessary could be done by transferring the equivalent amount of silver which he had bought for the Government of India, and was about to ship to them, but he said, if you require more than this half-million of silver I will transfer forthwith half a million in gold as well. The Government of India pressed that gold also should be transferred in accordance with

* Published by Macmillan & Co., 1912.

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the Secretary of State's offer. They made their final request after some little consideration on the 19th December, and said that they were sure that the transfer of gold was necessary. On the same day on which the Secretary of State received that request he telegraphed out, "To-morrow I will set aside half a million of gold as you wish." Then on the 20th December he telegraphed out that he had done so. So that there was in no sense—and this is why I was glad that you asked the question—a setting aside of the convenience or wishes of the Government of India in the matter. As soon as the Government of India said that they could not conveniently do without this transfer of gold, the Secretary of State transferred it. Subsequently, in the course of the same busy season, he set aside nearly four millions of gold; so that what was required to meet the wishes of the Government of India was amply done.

572. Can you tell me whether in the first instance—I am not quite clear, listening to what you have said, whether you have already answered this—the Secretary of State did in fact object on the ground that the transference of gold from the reserves of the Bank of England would be inopportune at the moment?—In the course of the correspondence which I briefly summarised there appear these two sentences which I suppose I had better read, because they throw light on one another: "I am willing to make the transfer, as requested in your telegram of yesterday, at once if this is the only possible course. But as it is undesirable just now to withdraw gold from the Bank of England reserves, it would be better to postpone, or if possible to avoid, such transfer." That was the reason why for a short time he hesitated, but when he found that the interests of India as understood by the Government of India, required that the transfer should be made, then without any further hesitation he made it.

573. And even the expression of that hesitation was accompanied by an assurance that he would do it if the Government of India pressed him to do it?—Quite so; and he gave his reason merely because the Secretary of State always wishes to be very candid with the Government of India, and to let them know what is in his mind.

574. If you look at the same letter (26th April 1906, Appendix V., page 137), paragraph 9, you will see the Indian Government states: "Our currency system is unavoidably artificial, and the profits arising therefrom should be primarily utilised, not in breeding interest, but in protecting it against the risks to which an artificial system is liable." Would you admit that that is a fair criticism of what had then taken place?—I do not think that that professed to be a criticism of what I was just describing. That is a statement which is made in support of the proposition that a part of the gold standard reserve should be held in rupees so as to avoid the risk of the Government of India being caught short of rupees. It is only to that point that that remark is directed.

575. But it perhaps has a wider application than it was given in that particular paragraph. If it is sound at all, does it not apply beyond the special purpose for which the Indian Government were then using it?—Certainly. I do not think, if I may say so, that it applies to that particular transaction of the transfer of gold on which you were questioning me. I think that it is rather a wider and more forcible statement than personally I should make if I were asked to describe the Indian currency system, because I think, and these papers I hope will convince you, that the Indian currency system is as far as possible managed on automatic lines; that is to say, it is managed as little as possible and left to itself so far as may be. There is a certain artificiality in the sense that from time to time the Government has to take certain action, but to describe it as an artificial system in the sense that it is very much more artificial than, say, the English currency system, is, I think, not very completely justified. There is artificiality, of course, in the English system—great artificiality.

576. Does not the force of the criticism lie in the suggestion that this gold standard reserve should be

maintained in bullion?—It can be used as supporting that view, but it was originally used as supporting the view that it should be maintained in silver bullion. I do not think that the force of the argument depends—and perhaps I misunderstood you here—on the artificiality of the system. As the Government of India wrote it, they implied that there was a connection between the artificiality of the system and the maintenance of the reserve in silver bullion; where I had difficulty in following it was in seeing that particular connection.

577. Is it your view that it is not necessary to maintain any large proportion of the gold standard reserve in gold?—I would qualify that. I do not think that it is necessary to maintain a large proportion in gold provided that the portion that is in other forms is in forms in which it can be easily realised. If one had the choice between gold and securities of which the realisation might be difficult in times of stress, then I should say let it all be in gold.

578. In fact, if I rightly understood you, you would confine the holdings of the reserve either to gold or to short-dated securities?—I should like to see it in that form. If there were any use in a reserve of 20 millions with 2 millions in Consols, I think it would be quite safe to have that kind of proportion; but I think it would not be safe in present circumstances to have a very large proportion of reserve in Consols. When I say Consols I mean similar securities such as Local Loans stock, Irish stock and so on.

579. That is to say, the highest class of securities with no fixed date of redemption?—That is so, or with no near date of redemption.

580. There is a question arising out of the correspondence of 1906 as to a temporary loan from the gold standard reserve. It seems to be rather an intricate transaction. Can you make clear to me what took place and what were the reasons for it?—I do not think that the transaction itself is very intricate. From time to time the Government of India has to make payments, mostly to meet Council bills or transfers sold by the Secretary of State beyond the amount that they hold in their Treasury balances, or that they can conveniently spare from their Treasury balances. In such times the usual resource is that the Secretary of State earmarks gold here, that is to say, transfers it to the paper currency reserve, thus liberating so much money from the paper currency reserve in India. That is the second method of meeting bills, payments from the Treasury balances being the first. There are times when even the second method cannot be conveniently used, because the London money market might be disturbed to an extent which would affect Indian interests. I mean, if the Secretary of State were issuing a loan or renewing debentures at that time he might say, It is a very serious thing to spoil my loan market by earmarking two millions or three millions of gold. In those circumstances he would ask the Government of India to make their payments to meet his bills, or for any other purpose, from the Indian branch of the gold standard reserve, taking the money as a loan. That is the practice which was followed for some years. The better course, I think, is that when the Government of India take money from the Indian branch of the gold standard reserve the Secretary of State should temporarily add a corresponding sum to the English branch so as not to deplete the reserve in any way. You will see in the correspondence in Appendix V. that after seven years' pleadings with the Government of India the Secretary of State has induced them to accept that view. So that loans pure and simple ought not to take place in future; what ought to happen is that there is so much added to the London branch when the Indian branch is depleted.

581. Am I right in thinking that the effect of the old system was, in the first place, to enable the Government of India to issue rupees to the public to the amount of the loan over and above the amount they would otherwise have been able to issue?—Yes, and that also is the effect of the new system. It adds an element of elasticity to the circulation in India.

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582. The results are not affected by the change of procedure?—No.

583. In a telegram dated the 14th February 1907 in Appendix V. (page 151) the Secretary of State explains that his balances are earning $4\frac{1}{2}$ per cent.; would the India Office consider it a good reason for not repaying a loan in these days, if such a loan were made, that the sum lent was earning a high interest?—I think I can say with confidence that they would not consider it now a good reason; but I should like to say this, that at the period to which this telegram of 14th February 1907 refers the loan was actually repaid and gold was set aside. The Secretary of State's indication of his intention or his hankering after postponement of the repayment was not carried into effect.

584. In 1907 a report was submitted from a Committee on Indian Railway Finance,* and as a result of that report a million or more, I think, of the money belonging to the gold standard reserve was applied to the purposes of railway extension; am I right in that statement of fact?—Certainly, except that it was actually used not for railway extension but for the purchase of rolling stock; but that is an immaterial point.

585. What were the reasons for adopting that course?—At that time the need for expenditure on rolling stock was very urgent. There was complete unanimity between the Secretary of State, the Government of India, and the mercantile community in India that a million pounds' worth of rolling stock ought to be got as soon as possible. It was not considered that it could be bought from the balances of the Secretary of State, and it was also not considered practicable to raise the money by means of a loan. India stock could not be issued because an issue had recently been made, and the objections to issuing India bills were held to be very strong. The general opinion at that time was that the exchange was in a very strong position, that the resources available for its support were quite adequate for their purpose—all of which is set forth in the Interim Report of this Committee submitted in June 1907 (see Appendix V., pp. 156-7)—and that it would be on balance very much to the advantage of India to reduce the rate at which the gold standard reserve was being accumulated and to use this million of money for the purchase of rolling stock. I may say that I was a member of the Committee which made that recommendation, and we considered it, as you will understand, with very great care. We pointed out, as you will see here, how strong were the resources that were available for the support of exchange; they amounted to more than 23 millions and they were steadily growing. We came to the conclusion that there was enough to relieve us from any apprehension of a fall in exchange.

586. The Secretary of State, I think, went rather beyond your recommendation at the moment, and decided to do this not merely as a single exceptional transaction, but regularly to use half the profits on coinage for railway expansion?—Yes.

587. It would appear from the papers that you have submitted that the opinion of the Government of India was adverse to that course?—Yes, on the whole the Government of India were adverse, but their opposition has, I think, often been exaggerated. I should like to draw your attention to a letter in Appendix V. from the Government of India of the 8th August 1907 (page 160). I wish to draw your attention to two points. The first is in paragraph 3 of that despatch, in which they say, "We accept your decision, although some of us entertain doubts as to its expediency." It was not a unanimous Government of India that was opposed to the action taken by the Secretary of State. The other point to which I should like to draw attention is that, as shown in paragraph 2 of that despatch, the Government of India by a coincidence were, at the time that this Committee reported, considering and indeed accepting the advisability of limiting the growth of the gold standard reserve. They had actually, as you will remember, in the previous year diverted a considerable sum from the gold resources or the

sterling resources so as to build up the Indian branch, and then they were proposing that the sterling investments should continue only until they reached 20 millions, and that after that figure had been reached the investment of the profits on new coinage should come to an end, and that then the profits, being diverted from the gold standard reserve proper, should be used for railways. So that the minds of the Secretary of State and his Council and of the Government of India were moving in the same direction.

588. So that you would say there was no difference of principle between them, the point on which they differed being the exact time at which the operation should begin?—Yes. Of course they would have said, and it is fair to them to mention it, that the difference of detail was to them a very important one.

589. The transaction bears a certain resemblance to one we sometimes see in this country, where the Chancellor of the Exchequer, being in need of some sum for immediate objects, finds admirable reasons for reducing the Sinking Fund?—Quite so, and I think it ought to be criticised on much the same ground. Everyone is familiar with the phrase that is so often thrown at the Chancellor of the Exchequer, that he has raided the Sinking Fund. It is implied without further consideration, that he has done an improper act, whereas I think those who follow imperial finance more carefully know that sometimes it may be an unwise thing, and sometimes it may be a very wise thing, to raid the Sinking Fund in a particular year.

590. Would you agree in regard to this Indian transaction that the onus of proof very definitely lies with those who wished to divert?—Yes. The justification that our Committee put forward in support of its much smaller proposal was, first, the admitted urgency of the additional rolling stock; then the difficulty of providing it by other means; and, thirdly, the position of safety that had been reached in respect of the safeguarding of the exchange.

591. Do you think that your Committee or the Secretary of State would have come to exactly the same conclusions if they could have foreseen the stringency of the crisis which took place, I think, about six months later?—I think they would have. It is very difficult to dogmatise, and you will not expect me to dogmatise in answer to such a question but what actually happened six months later was that there was an extraordinarily severe reversal of the usual favourable balance of trade, and that, without any difficulty worth mentioning, the tendency to a fall in exchange which arose from that reversal was met, and amply met, and exchange was, to all intents and purposes, maintained. It is true that, owing to the fluctuations of circumstances, the exchange did fall below the gold exporting point for some days, so that to that extent exchange, in the strictest sense of the word, was not maintained; but I think it would generally be held that the business of maintaining the exchange was successfully performed, and that the Secretary of State was by no means at the end of his resources for that purpose.

592. I was led to ask you that question because I noticed that in the Secretary of State's telegram of the 2nd July 1907, which is given in Appendix V. (pp. 158-9) he states, "The danger, which you allege, of a fall in the rate of exchange, I regard as illusory, having regard to the present conditions of trade"?—I noticed that telegram, and I looked up the records relating to it. The telegram might easily be understood as meaning that the Secretary of State committed himself to the view that there was no danger of the occurrence of unfavourable trade conditions such as in the absence of special support would lead to a fall in exchange. If he had said that, his remark would have been very risky and indeed rather ridiculous. I find on looking at the papers that what he intended to convey was this—that the existing supports for exchange were adequate, and that the danger that they would be inadequate if one million pounds were spent on the railways was illusory. That view which the Secretary of State meant to convey was justified by the events of the crisis which occurred six months later.

* Cd. 4111; and Appendix V., page 156 (Interim Report).

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593. When was the decision to use half the profits on coinage for railway purposes withdrawn?—It had undergone a process of gradual modification.

594. It has finally ceased now, has it not?—It has ceased until the 25 millions shall be accumulated in the London branch of the gold standard reserve.

595. What was the date on which it was decided to withdraw no more until that figure of 25 millions should have been reached?—That was a recent decision of 1912. You will find it in a despatch of the Secretary of State dated the 28th June 1912 in Appendix V. It is the last sentence of paragraph 5 on page 202.

596. Up to that date about what amount had been withdrawn?—About 1,100,000*l*. The only withdrawal that took place was the one in 1907, which occurred immediately on the report of that committee.

597. You have given us in a paper which you have circulated, an account of the financial crisis of 1907-8 (see Appendix III.); I do not want to ask you to go over in evidence all that you have written, but I will just ask whether there is anything you would like to say supplementary to what you have written, either as regards the history of the crisis or the measures adopted to meet it?—I think it is given so fully in my statements and in the correspondence in Appendix V. that there is very little that I need say. I do not know if at this point I should draw attention—I should like to do so at some stage—to the exceptional severity of the crisis. I think that is a point which has been almost universally overlooked, except in the India Office, and I attach myself the very greatest importance to its being properly understood. In a small paper of mine, headed Supplementary Statements to Accompany Memorandum on Gold Standard Reserve (see Appendix IV.), I give certain particulars (in Statement, page 107) regarding the balance of trade in calendar years. I did so in financial years because that is a conventional way of setting forth these figures, but it is a very misleading way, because very often you have a financial year the first half of which is very good and the second half of which is very bad, but the badness of the second half is obscured by the goodness of the first half. So that, in order to get to the real nature of the crisis in 1907-8, in Statement 3 I have amplified some figures, which are already in the correspondence, for a smaller number of years, taking the period from the Autumn of 1907 to the Autumn of 1908, which was really the period over which this crisis extended, and comparing the balance of trade for that period with the balance for the corresponding period of each year from 1892-3 to 1911-2. I would draw your attention to this, that although in these years, as indicated by the asterisk in the last column of the table, there were many famines, there was no year except 1907-8 in which there was not a very considerable favourable balance of trade. If you eliminate 1907-8, you find that the worst year was 1896-7, when there was a favourable balance of nearly 13 millions, and that the other years show much larger favourable balances. In this solitary year, 1907-8, you have an unfavourable balance of 1,190,000*l*. which is, to some extent, due to the fact that silver was very cheap at that time, and India imported very large quantities of cheap silver. I think that that really is one very important fact relating to the history of that period which is not brought out in the correspondence, or in my continuous memorandum, so I should like to draw your attention to it.

598. Will you state the inference you draw from it?—I draw one inference only, as shown in various passages in the memorandum, that when one is calculating how large the gold standard reserve ought to be in order to provide reasonable security for maintaining exchange at any future period of adverse trade, one can, on the basis of these figures, take 1907-8 as being as bad a period as it is necessary to provide for.

599. Was 1907-8 a famine year?—It was to some extent, but it was not as bad a famine year as many of the others which I have marked with asterisks. I daresay you remember that at the end of 1907 there occurred what was called the American crisis, when a panic fell on many depositors in America and they took

their money in gold—real metallic gold this time—and hoarded it.

600. There was not any war in India in that year?—No, it was a time of peace. It was a time of famine; not very bad or extensive famine; but above all things—and this was the important fact—it was a time of the most profound industrial depression all over the world, and it was also a time when the Bank of England rate was very high.

601. Suppose that that general state of affairs were to coincide at some future time with a really severe famine in India, or even with such a year as we have seen in India occasionally in the past, when there have been both bad famine and war, would you still say that 1907-8 is the measure of the utmost that you have to guard against?—Of course no one would say that there could not possibly be a worse year, but in these matters I think it is generally agreed that provision ought to be made for what, on the basis of experience and of any corrections of experience that prudence suggests, may be considered to be the utmost limit of danger. I ought to mention to you that in these years which are shown in my table there have been years in which there have been simultaneously famine and war. I do not mean war on a very great scale, but very important frontier campaigns. I think you will find if you look at Statement 2 of Appendix IV. on page 107 that famine and the second Afghan war synchronised; I think in 1878 the Afghan war had begun, and that was certainly a famine year.

602. And it was a bad year, of course, as shown by your figures?—Yes.

603. I merely put to you that no doubt the American crisis and its results were extremely severe, but that the local Indian crisis was not as severe as many that had been known in that country. What I was suggesting was that to take the standard of that year, the standard fixed as what was necessary for that year, as the standard for all years, might be insufficient if a grave famine in India coincided with a similar world crisis?—As a general proposition, of course, I could not possibly dispute that, but I would dispute that if, as business men do, one allows for such difficulties as are likely to occur and makes a fairly liberal calculation of the extent to which past experience suggests difficulties, then one has gone as far as prudence suggests, more especially because, supposing that there was an under-calculation of real difficulties, but that one had 25 millions as one's gold standard reserve intact at the beginning of a particular exchange crisis, no one doubts that the using up of that very large sum of money, together with the gold in the paper currency reserve, would very seriously stem the crisis, and that a great deal would have been done by way of contracting the currency and by other methods to reduce the residuum of the crisis still to be faced; and at a time like that one would no doubt be able to borrow, if it were necessary, to make more funds available. Since this kind of calamity might happen perhaps once in 50 years, or once in 100 years, it is important not to immobilise a large sum of money for so long a period in order to meet so improbable a contingency.

604. At the same time, if you profess to create a reserve, you would agree, would you not, that it is very desirable that it should be sufficient for the worst contingency that you may reasonably allow for having to meet?—Yes; that is a formula to which I should willingly subscribe, and I should supplement it by saying that these figures in Statement 3 on page 108 are an excellent guide as to what is the extent of that contingency.

605. Speaking generally of the correspondence between the Secretary of State and the Government of India, am I right in thinking that in the earlier years the Secretary of State overruled the Government of India perhaps in the most important points on which the two differed, but that in the last two years or so the correspondence discloses a compromise in which the Secretary of State has given way, to some extent, on such questions as holding a portion of the reserve in London in a more liquid form, and the Government of India has waived its wish to have more of

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the reserve located in India itself?—Yes; I think there has been an approach towards unanimity in the matter.

606. To go to another question, I want to ask you a little about the coinage of rupees; how is it determined when rupees are to be coined, and to what extent?—That, of course, is set forth at great length in the correspondence, but it has not been summarised in any memorandum. Perhaps I might build up my remarks round a certain nucleus, namely, the memorandum which was sent out by the India Office in 1910. (See Enclosure to Despatch to the Government of India No. 25, of 18th February 1910, in Appendix V., pp. 188-94.)

607. I do not so much want the whole history of what has taken place as the result?—The result, as you will see from that memorandum, is that we have now adopted this standard—that at the beginning of the busy season which we take to be the 1st October, we ought to have in the paper currency reserve and in the Indian branch of the gold standard reserve combined 24 crores of rupees, that is to say, the equivalent of 16 millions sterling, and that that should be allowed to decline gradually to 17½ crores of rupees by the 31st March, which is the conventional end of the busy season—of course, it is not a very exact date, but it serves usefully; and that in order to prevent the stock falling below 17½ crores by the 31st March, new coinage ought to be undertaken during the busy season to the extent that is necessary, and then if the year ends with 17½ crores, that is to say, if that is the amount on the 31st March, coinage ought to be gradually undertaken during the summer to the extent that seems likely to be necessary to fill up the reserves again to the higher figure, the 24 crores. There is always some uncertainty, because in the summer sometimes rupees flow out from the reserves into the general circulation and sometimes they flow back again.

608. Are the variations in the public demand very great from year to year?—They are enormous. I have some figures here that I got out for another purpose, and I think they are very surprising. I do not think you need the figures year by year, but I will just take the two extreme figures. In 1907 the public demand for rupees, that is to say, the absorption of rupees, was 8,120,000*l.* in the calendar year; and in the year 1908 there flowed back from circulation into the reserves, 12,300,000*l.* The difference between those two extreme years was a difference between, as we put it in our statements, + 8,000,000*l.* and - 12,300,000*l.*, that is to say, a difference of over 20 million sterling. That you will easily understand is a very important fact in all the management of the Indian currency, that we are liable to these vast fluctuations in demand.

609. By what considerations are the Government influenced in the purchase of silver for rupee coinage?—Only such considerations as flow from that empirical rule that I mentioned to you. We try to have our 24 crores at the beginning of the busy season to prevent our stock from falling below 17½ crores at the end of it, and then if it does fall as low as 17½ crores, to build it up again to 24 crores by the beginning of the next busy season. I ought to have mentioned to you that this is a very recent rule, and, if I may say so as a member of the India Office, it has been very useful, because it prevents purchases being made either too sparingly or too abundantly, and both extremes have been reached in the past.

610. It has led, on the other hand, has it not, to purchases of silver not being made at all for some time?—It has.

611. And then to very large purchases being made in a very brief time?—It has not led to larger purchases being made in a brief time than was customary under the old system. Both under the existing rule and under the previous system large purchases were made in a very short time.

612. It must necessarily be the case, must it not, if you wait to purchase until your needs are very great, that the market will have knowledge of those needs, and that there would be a natural legitimate tendency on the part of the market to use that knowledge against you?—We try not to let ourselves

be caught very short of rupees. Our minimum of 17½ crores is a very ample minimum, and supposing that at some time we had to let this stock go down to 15 or even 12 crores, the system would still be workable.

613. Have you ever considered whether it would be possible to buy steadily in small quantities instead of waiting until you had a large demand?—Yes, we have often considered that, and I think the answer to it in its briefest form is in those figures which I gave you—the figures of very large fluctuations. I have the figures for various years showing the amount of rupees held. In the year 1909 the largest amount held at one time was about 49 crores of rupees, and the lowest was about 39 crores of rupees. Both of those figures were very much above the estimated maximum of our requirements. Supposing that when we have held those very large sums we had bought silver, say, at the rate of two millions a year or at any figure that had been fixed as the steady annual purchase, that would have been open to two objections, first, it would have been in itself rather foolish to buy more of an article of which you already had far more than you needed; and then there is a much more serious objection. Supposing one had spent two millions on buying this unnecessary silver, and then just after that there had been a deficient monsoon or an American crisis and the exchange had tended to fall, it would have been most unfortunate that two millions of sterling resources, which in happier circumstances could have been used to meet the fall in exchange, should have been rendered useless for that purpose by being locked up in silver in India, because in such circumstances the money would have been locked up and one could not have turned it into the sterling resources and got it back and used it to support the exchange.

614. The Committee of 1898 recommended among other things that the Indian Mints should be thrown open to the unrestricted coinage of gold; will you tell us what has been done in respect of that recommendation?—The full information, as no doubt you are aware, is given in a paper which was presented to Parliament in 1913,* and I have tried to summarise it in a memorandum headed Note on Proposals for the Coinage of Gold in India (see Appendix VI., page 212). I think I could very briefly give you the main facts. From 1899 to 1902 we were in continual correspondence with the Treasury and with the Government of India, with a view to having a branch of the Royal Mint established in India. There were a good many technical difficulties, but they were not very serious and they were all got over in course of time. I think that possibly a Mint would have been established in 1902, only the Government of India wrote to the Secretary of State a very important letter withdrawing the proposal.

615. Which letter is that?—You will find it on page 56 of the Parliamentary Paper,* and it is dated 25 December 1902. They refer to certain criticisms, and then they go on "We have now ascertained that the chief mining companies have made arrangements with which they are at present satisfied for the regular sale of their gold in London, and we are doubtful whether any terms that we could offer with a due regard to our own interests would induce them at an early date to alter those arrangements and to bring their gold to the Mint in Bombay. In the absence therefore of an assurance that a steady and permanent supply of gold of local production would be available for coinage in this country we prefer to drop the scheme for the present, leaving its revival to the existence or the revival of conditions which cannot at present be foreseen." In view of that, the Secretary of State had no alternative. He had to drop the proposal, and it remained in abeyance until it was raised in the first place in a debate in the Legislative Council in India in 1911. There was a further discussion in same Council in 1912, and as the outcome of that the Government of India revived the proposal in a letter which is printed on pages 57-63 of the Parliamentary Paper.* They proposed that a Mint should be set up in Bombay on a very small scale, and they do not seem to have very much considered the question of

* H.C. 495 of 1913.

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the arrangements that were necessary under the British Coinage Act of 1870, that is to say, to bring an Indian branch mint into proper relation with the British Government and the Master of the Mint in this country. We found when we wrote to the Treasury that the very modest, inexpensive scheme of the Government of India was not really practicable. Their idea was to set aside a portion of the Bombay Mint, a room probably, to have a refinery and to coin sovereigns, and to let the staff of the Bombay Mint do the work when they were not coining rupees; but the Treasury insisted that whatever mint was used for the coinage of sovereigns must be under the control of the Treasury.

616. (*Sir Robert Chalmers.*) That was under the provisions of the Coinage Act of 1870, was it not?—I think that is so. I fancy the Treasury could have agreed to a scheme under which each officer of the Bombay Mint would have had two masters, namely, the Government of India for rupee purposes and the Imperial Government for sovereign purposes; but the Treasury, for reasons which I quite appreciate, did not accept that view.

617. (*Chairman.*) Would the Treasury objections apply equally if an Indian mint were to coin a special gold piece, not sovereigns?—No; the Treasury would then have no jurisdiction. It was for that, among other reasons, that the Secretary of State suggested as a way out of the difficulty that a special Indian gold piece might be coined instead of the sovereign.

618. Suppose a gold piece were coined for India or sovereigns were freely coined there, can you give me any indication to what extent, in your opinion, these gold coins would be likely to remain in circulation?—It is very difficult to say how far the sovereigns now in India, which amount to an enormous total, are in circulation, and how far they are used for other purposes or have been melted; but there are some figures on the subject, and I dare say many of them are familiar to you. There is one table in paragraph 8 of Appendix VI. on page 214 which gives some information which I do not think has ever before been published in the form in which I have given it. I should like to draw your attention, first of all, to the amount of sovereigns issued to the public. You will see that the amounts have been very large in recent years; in 1912-3, for instance, they went up to 21,815,000*l.* The figures, which have not been published, are these receipts from the general public, namely, the second line in the table, nearly 7,000,000*l.* in 1911-2 and more than 11,000,000*l.* in 1902-3. That shows that there is a very considerable flow of sovereigns both out of the treasuries and reserves into the possession of the public and also in the other direction. These figures, therefore, indicate a very considerable use of sovereigns as currency. But it is quite possible that the large amount that comes into the Government treasuries and reserves from the public may indicate that many of the sovereigns which go out to be used for currency have very short lives—I mean the Government might pay out a sovereign one day, and then the same sovereign might come back again the next day. I do not say that that is so; that is merely one of the illustrations of the difficulty of arriving at any conclusion on such a matter.

619. I should now like to ask you whether you would agree with the opinion expressed by the Fowler Committee that India should aim at the possession of what they call the normal accompaniment of a gold standard, namely, a gold currency?—My own opinion—I do not say that any weight should be attached to it—is that on the whole it is a good thing that India should have a gold currency. I think it is far less important than that she should have a great central stock of gold to be used for the support of exchange; I think that is her greatest need in respect of gold, but her second need, I think, is that the people should have gold if they want gold. It is a curious fact that many people who have to use money in the course of their business have an extraordinary affection for the use of gold money, and I think that people in India, like people elsewhere, if they want gold money and can pay for it in produce or can acquire it honestly should have

the opportunity of acquiring it. Indeed it is inevitable; you cannot prevent people from having gold if they want it.

620. Is there any indication, in your opinion, that they have difficulty in getting it now if they want it?—I should think there is very little difficulty when one considers the vast amounts that have been paid out into circulation in India, and the very large amount, as mentioned in one of my papers, that is still held on offer for anyone who wishes to have it. I should think it ought to be quite easy for anyone in India who desires gold to get it. Sometimes friends of mine who have been in India grumble and say beyond a certain amount they find it a little difficult to get gold, but then I fancy that they must be referring either to very large amounts or else to periods when from one reason or another the Government stock has sunk rather below the normal level.

621. If they were referring to very large amounts, that would be an experience which they might easily have under certain conditions in Europe, would it not?—Quite so. I remember one friend of mine told me that the ruler of a native state in the West of India with whom he was well acquainted sent down to Bombay to change many lakhs of rupees—a lakh of rupees is roughly 7,000*l.*—into sovereigns, and the messenger whom he sent could only bring back sovereigns on that day for half the amount, and he had to wait for the other half. When you are dealing with several lakhs of rupees it is not a very strange thing that you do have to wait for a little time.

622. We have had referred to us similar questions in regard to the paper currency reserve. I understand that one of your colleagues in the office is going to give us evidence on that point?—Yes; Mr. Newmarch has submitted a memorandum* which contains, I think, very full information. If there is any point on the subject on which you would like to question me, of course I would answer to the best of my ability; I have been familiar with it for a good many years.

623. I think I need not trouble you under the circumstances at present, but possibly other members of the Commission may wish to ask you some questions. Practically the system which is established in India is what is known as a gold exchange system, is it not?—It is more than that, I should say. I think the ideal gold exchange system would be a system under which there were central stocks of gold under the management either of the Government or of a very responsible central bank with little or no gold in circulation. The Indian system departs from that in that it tends to encourage, and has, I think, effectively encouraged, a certain circulation of gold, though, as I explained, I cannot say to what amount. It is on its way towards becoming a combination, I should say, of a gold exchange system and a gold currency system.

624. In so far as it is a gold exchange system it economises the use of gold, does it not?—Yes, it does to a considerable extent.

625. Might it not be thought that it is in the interests of India to economise the use of gold?—I do not know that it is of so much importance to India; at any rate it is not of more importance to India than to the rest of the world that the use of gold should be economised. The view has been held that gold ought to be used freely because there is too much of it. I think that India must arrange her currency system in accordance with the wishes and convenience of the people concerned without thinking too much of the wide-reaching economic effects.

626. I think you are probably right in saying that the Indian public must have what the Indian public needs. I was rather asking you whether the Indian Government had an interest as distinct from Indian individuals; that is to say, whether India as a whole had an interest either in encouraging the use of gold or in discouraging it?—I think that the Indian Government as representing simply the interests of the Indian people, have an interest in conserving the central stock of gold or of sterling assets, so

* See Appendix VIII., page 239.

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that it may be strong enough to meet emergencies. Subject to that, I do not think there is any reason, from the point of view of the Indian Government, why gold should not be freely used by the people of India.

627. It has been suggested in a criticism which I have seen of the present Indian arrangements that the keeping of gold in London tends to make it rather a reserve for the London money market than for India, that is to say, that London discounts the presence of this gold, that the London position is the weaker in consequence, and that that injuriously affects India?—I do not think there is any substance in that. Of course the influence which would at any time be exerted on the Indian stock of gold held in England would be the influence of the Bank of England and of the joint stock banks, and I am quite sure that they would never count on the use of Indian gold in an emergency or desire in any way that their wishes should be consulted. They know that the Secretary of State has to be adamant in his resolution to think only of Indian interests in these matters, and that he is adamant.

628. I go now to the allocation of the reserves. I gather from Appendix III. that in your opinion London is clearly the right place to hold, at any rate, the major portion of the gold standard reserve?—Yes.

629. The objection to it is perhaps rather a political one, namely, that Indian opinion largely feels that that is some disadvantage to India?—What view is held by Indian opinion as a whole I cannot say. There was a proposal made in the Indian Legislature Council that a considerable portion should be held in India, and it certainly was supported by many members; but whether Indian opinion generally, that is, the opinion of the great Indian public, concerns itself with this matter, I cannot say. In the Indian newspapers I find very little on the subject except when particular writers who are interested in the matter are writing very freely.

630. One of your reasons for objecting to having more of it held in India is the difficulty of earning interest on it?—Yes, that is one reason.

631. Am I right in thinking that though that is a strong reason with you it is not your principal reason?—The main consideration, I think, is that the reserve, wherever it is held, should serve the purpose which it is intended to serve. I think holding the reserve in London does tend to ensure that the sterling portion of it shall be used for the purpose of supporting exchange.

632. Then your argument is that when needed for the purpose of supporting exchange it is needed in London?—It is needed in London.

633. Therefore it had better be kept where it is needed?—Yes.

634. And that has the incidental advantage of enabling you to earn interest on it to a larger extent than would be the case in India?—In India you could scarcely earn interest at all. If it were held in India it would have to be held in gold, I think.

635. I think you have already said that you would like to reduce the holdings of Consols and such like securities which are not repayable at a fixed date?—Yes; I mentioned in a marginal note to paragraph 6 of Appendix III. (page 88) that after 31st March, which is the date to which the statements go, we sold Consols for half a million and bought short-dated securities in their place.

636. Now if you have very large holdings of short-dated securities would you always be certain that you could realise them?—I think so.

637. The presumption being that the moment at which you want the money is the moment of what I may call international money stringency?—It might be or it might not be.

638. Assuming the case that it was; assume a crisis like 1907?—In 1907 we had to take from the gold standard reserve, roughly, nine millions; not only had we no difficulty in getting that nine millions, which mostly came from realising securities, but we had arranged to sell more securities. We had to cancel, or we did cancel, whether wisely or not, the sale that we had arranged, so that we were in no way held up by the difficulty of realisation. Since then—and that is a good

basis of comparison, because there was a very bad crisis at that time—the whole reserve has come into a much more realisable form, and if we had to present our six months' treasury bills I do not think anyone can doubt that if they were then due they would be paid, or if they were some months short of being due that the Bank of England would discount them for us at a proper rate. Our next line of defence would be exchequer bonds, which would have perhaps two years to run. I do not think there is any reasonable doubt that we should be able to realise our exchequer bonds. Then there are other bills which have been issued by Colonial Governments, and I cannot conceive that we should find difficulty in realising them.

639. Do you consider that you ought to hold any fixed proportion of the gold standard reserve in gold itself?—I think the real argument for holding a certain amount in gold is an argument which is set forth in one of these papers that, unfortunately from our point of view, perhaps fortunately from the national point of view, the supply of short-dated securities is very likely to decrease. It is the policy of the Treasury, and it has been for many years, since the end of the Boer War, to reduce the amount of Treasury bills in existence, and it is quite possible that 10 years hence there may be no Treasury bills. I think the real reason for holding any gold is that we may be unable to find short-dated securities sufficient for the purposes of the reserve.

640. As long as you can find short-dated securities you personally do not think it of importance to hold any part of the reserve in gold?—No.

641. Of course, if you hold very large sums in Treasury short-dated securities the moment at which you would wish to realise them would be the moment when it would be most inconvenient to the Treasury to pay off those bills instead of renewing them?—Fortunately for us the Treasury has no option in the matter. If we present our bills and say we want our money, then it is for the Treasury to issue corresponding amounts to the public in order to find the money to pay us.

642. The Treasury would be obliged to pay you, would it?—Yes.

643. But the effect on the money market might be very considerable?—Yes.

644. The Treasury might have to borrow such amounts at very considerably enhanced rates?—As far as we were concerned, we should get our money back at par.

645. I agree that India, of course, would get her money back, but what I was coming to was that the result of her suddenly demanding this large sum of money at a time when it was very inconvenient to find gold would have no direct effect on the repayment, which would be certain, but might have an indirect adverse effect upon her trade?—It might.

646. It might help to produce a stringency which might be very injurious?—Yes. May I however mention a point which is really of great interest in its backward illustration of a question which you put to me at the beginning? You spoke of gold having to be found at a particular moment, and of the stringency that might be caused thereby. I do not know whether you, like the Fowler Committee, use gold in the wider or in the narrower sense, but if you use it in the narrower sense then the point which you raise suggests this observation to me—that no need for actual gold arises when India has to realise her Treasury bills and meet a fall in exchange. All that India has to do is to make the payments in what is commonly called banker's money, and that fact, very curiously, critics of our Indian system have frequently overlooked; it is a fact of the first importance.

647. As the volume of Indian trade increases must not the gold standard reserve increase in some proportion to it?—It ought to go on increasing, and whenever the Secretary of State has thought of the matter he always had some scheme for enabling such an increase to be effected. One method is to add all the interest on the investments, if any of it is still held in investments; another thing that can be done, and which is always proposed or generally proposed, is that at the time when the whole profits on coinage cease to

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be added to the reserve, a proportion of them, say a half, should go on being added, so that there would be a continual growth of the total of the reserve.

648. In considering these different alternatives has anything like a principle been evolved which should govern the amount to be aimed at?—No, I think that the facts are so uncertain that it would be impossible to arrive at a principle. Of course you know that particular figures have been adopted—the 25 millions, for example.

649. Yes; that is adopted on a general survey of the situation, but there is no principle that would lead to the expansion of that sum in any definite proportion to the development of Indian trade, is there?—No; it is very uncertain. If a great part of it were held in securities one sees how much would year by year be added by way of interest, but how much would be added as representing, say, half of the profits on coinage one does not know, because in many years there would be heavy coinage, and in other years there would be no coinage at all.

650. As regards the Indian branch of the reserve, I have read your statements in Appendix III. on this subject (pp. 94–6). Am I right in thinking that in effect it is really a sort of additional paper currency reserve?—I think roughly it may be so described. Of course every analogy fails at some point, but it serves very much the purpose that would be served by an addition to the paper currency reserve.

651. Might it not be desirable to increase the paper currency reserve instead of keeping the Indian branch of the gold standard reserve?—That would not quite serve the same purpose unless other alterations were made in the rules regarding the paper currency department. I should like to explain that particular difficulty, if I may, as it is a little intricate. If you have rupees in the paper currency reserve you can only take them out either when you cancel the notes or when you substitute sovereigns in the reserve. There are only, if I may put it metaphorically, two keys which fit that particular lock and enable you to get your rupees. This holding of the rupees in the Indian branch of the gold standard reserve is guarded by a lock that can be opened much more easily. One can simply take a loan and repay it when convenient, or one can take the money out and against it merely invest in securities in England. It is very often easier to get at those rupees, I mean quite legitimately and properly, than at those of the paper currency reserve.

652. It is an extension of the uses of the gold standard reserve beyond anything contemplated by the Fowler Committee, is it not?—Yes; it is quite a new departure. I need scarcely do more than say, in passing, that the Fowler Committee dealt very fully with the problems which had arisen when it was appointed, but, naturally, they could not deal with problems which had not then arisen.

653. It is the diversion of a portion of the gold standard reserve from its primary functions?—Yes, it is.

654. You find a necessity, and as you have the gold standard reserve you apply that to meet it?—Yes, and that was done. I may say here it is one of the subjects on which there has been extraordinary unanimity between successive Secretaries of State and successive governments of India.

655. Has there been no difference of opinion between the Government in India and the Government at home?—On very small points there has been, but in substance they have both agreed that this rupee branch of the gold standard reserve should be maintained. As regards the exact method of using it, there have been some differences which I think have been unduly magnified, and in any case they have ceased now.

656. (Lord Faber.) Will you be so good as to tell me this—I ought to know it, but I am not quite sure. Can gold be demanded for rupees at the rate of 1s. 4d., or is that standard kept up by the favour of the Government?—It cannot be demanded. The Fowler Committee considered that among other questions, and rejected the proposal for complete legal convertibility. The practice is that when the Government has gold in

India, as it usually has, it gives it out freely at a particular rate, 15 rupees to the £; and in addition to that, when the state of exchange is unfavourable, it sells sterling exchange on London for rupees. In those two ways it provides what is an approach to convertibility, but not absolute convertibility.

657. Should I be wrong if I said, under those circumstances, that if gold cannot be demanded at the rate fixed by the Indian Government—that is, at 1s. 4d.—that means that the currency in India ultimately has a silver basis?—I do not think so. It would be on a silver basis if the owner of the silver had the right to bring it to the Mint to be coined, and in that case, of course, the circulating value of the coin would be equivalent to its intrinsic value. Now there is no such right, and the circulating value of the rupee differs very greatly from its intrinsic value. I believe there is only one important country now on a silver standard, namely, China. Before 1893 India was on a genuine silver standard like China.

658. You rather surprised me by not appearing to think there would be very much difference between holding sterling securities and metallic gold; am I wrong in saying that you do hold that opinion?—There are differences, and obvious differences. In what connection did I say that?

659. Suppose to-day, instead of holding metallic gold in India you hold a part of your reserves, say, 10 millions, in sterling securities, and it became necessary for you, in order to support the relative value of the rupee at 1s. 4d. in India, to sell your 10 millions of sterling securities in London and get gold for them; do you think you could do that in London to-day without an enormous disturbance of every market in the world?—First of all, it depends on what securities one holds.

660. I will give you the best security in the world—Treasury bonds?—When you say gold, what do you mean?

661. Raw gold, metallic gold?—There is no need to have metallic gold for our purposes. I mentioned that to the chairman, and he did not press me to pursue the point, but if I may be allowed I would like to explain it, because it is a point of the very first importance.

662. If you please; it would be very interesting?—May I explain to you what are the circumstances in which we have to use our gold standard reserve? Ordinarily, as you know, India has a favourable balance of trade, and there is no difficulty for any person in India who has ordered goods to be imported on his account to get sterling exchange in order to pay the vendor; but occasionally, perhaps once in 10 years, or once in 20 years, India has an unfavourable balance of trade, and then it is quite difficult for the Indian importer to pay the vendor from whom he has got his Manchester goods, or whatever it may be. It is then, when the holder of rupees is looking about for sterling in order to pay his debts to his creditor in Manchester, that a fall in exchange occurs. I hope I have made that clear.

663. I see that with the foreign trade of India, but I will put it in this way. Suppose in days to come the holders of rupees in India desired for some reason or other, which I need not enter into, to turn their rupees into gold at the rate of 1s. 4d., could they say to the Government of India, you must find us the gold?—We have never accepted that position.

664. How are you going to keep the exchange up if you are going to say, when gold is asked for against your silver at 1s. 4d., you will not give it?—The rate of exchange is, as you know, a rate of international exchange, and when one speaks of the French exchange, the German exchange, and so on, one means the ratio between the currencies of two particular countries. I think you accept without further question my explanation of how it is in the case of the external trade.

665. I do, quite?—I do not think that there is any country in the world that has ever undertaken the further obligation which you suggest, namely, that it should give silver to anyone who brings gold, and gold to anyone who brings silver. This might interest you. A scheme for doing that, and setting up what is known

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as a bimetallic shop—selling silver for gold, and gold for silver—has appeared once in a very interesting economic work, *The Theory of Bimetallism*,* by Sir David Barbour, who is an old friend of many members of this office. He suggested that as a sort of type of what perfect bimetallism would be, but, according to my recollection, even he, enthusiastic bimetallist as he was, never contemplated that any one country should ever set up a bimetallic shop on that basis, because it would break the greatest and most wealthy country in the world.

666. My suggestion is that you are on a gold basis in India, really. You have practically put yourself on a gold basis in India, I should have thought, by saying that you will pay 1s. 4d. for a rupee. Does that not put you on a gold basis practically? I know that you cannot run gold and silver at a fixed exchange together, but let me put it as plainly as I can: do you want to pay for the rupee at 1s. 4d. in gold, or do you not?—Do you mean to enter into a legal obligation to do so?

667. I do?—Then my answer to that is very simple—that we do not wish, and no one of the authoritative bodies that have looked into the Indian currency has ever proposed, that such a legal obligation should be undertaken; and also, if you do not mind my repeating it, it would be unique in the history of the world.

668. (*Sir Robert Chalmers.*) Can you get Napoleons for 5-franc pieces in France?—If you pay for them I imagine you can.

669. But not by law?—Not by law at a fixed rate.

670. Or can you turn the silver dollar in the United States into gold at your own option by right?—I believe not.

671. Can you get a sovereign by law for 20s.?—No.

672. Do you know of any circumstances by which you can perform that operation by law?—No.

673. (*Lord Faber.*) In all those countries the silver is merely token money, but it is more than that apparently in India?—May I put this to you? You are quite right in saying the English shilling is a token shilling, and the rupee is in a sense a token, that is to say, it is what economists call over-valued. It differs from other tokens merely in being very much more widely used. It serves as a good token if it satisfies two conditions, first, that its international value be maintained—and that I think you know we provide for adequately; and second, that the person in India who uses it should not use it very unwillingly, because he much prefers another form of money. We are working up to satisfying that condition, and I think that it is to a great extent satisfied now; I do not say that it is completely satisfied, but so far as it is not that is the one defect that I should admit in our system, or rather in the stage of development that our system has reached.

674. With regard to the hoarding of gold in India, there is one very curious feature that we bankers have come across; for the last two years there are certain sovereigns of a certain date that have commanded a very large premium, 1 or 2 per cent. in England for transmission to India, because the Indian princes like certain dates of sovereigns, Victorian sovereigns, and they are willing to pay the 1 or 2 per cent. premium in India for those. I suppose those would be hoarded, would they not?—I suppose many of them would be. The caprice of people in regard to coin is very familiar in all countries, and I think especially in India. It used to be said, and I have no doubt it is the case now, that the old sovereign which had a spade on one side, or rather a shield of the shape of a spade, was always very popular—I do not know why; perhaps it looks agricultural, but it is a familiar fact.

675. With regard to Indian gold that you might have at home in the Bank of England, I apprehend that your gold when it is put there, is earmarked for Indian purposes alone?—Yes.

676. It would not be published therefore in the gold reserves which come out?—When we earmark gold the Bank of England publish the fact in the same

way that they publish the fact that so much gold has gone to the Argentine.

677. Now with regard to the gold standard again, may I put this to you: if the Indian Government makes certain sums of money by purchasing silver bullion and turning it into rupees, may it not lose much of it by purchasing the necessary gold to satisfy the holders of the rupees?—I do not see how it can lose. At what stage?

678. There again I am getting on to the rather controversial ground of convertibility. I should have thought that if you made money, in the first instance, by buying bullion and selling rupees, you might, if there were a large run, turning your rupees into sovereigns again, be faced with a loss. If you make money with one hand cannot you lose it with the other?—I think I know what you mean, and I think you will agree that this is a slightly more correct way of putting what is in your mind. You make that profit obviously in rupees; it may be that when you want to convert those rupees into sterling money in some way or other people will not buy them of you at 1s. 4d. In that case you will not sell them at a loss. I think you were assuming that at that stage, if one could not sell them at 1s. 4d. one would sell them at 1s. 3d. What would actually happen would be that one would hold them in suspense, and if things went very bad at that moment, and continued bad, it might be a considerable time before you would really have your profit in the form of sterling—it would be held in suspense in useless rupees temporarily, I think that is the danger that you were really thinking of.

679. If for the moment it is undesirable for you to realise your rupees, should not all money made by the currency be kept for the currency alone? You could not surely use any of it, even for such a benevolent purpose as the helping of railways. Would you tell me if, in your opinion, it would be wise to keep, say, 20 millions of gold in India and 10 millions in London, and that everything else that you make out of the currency should go into sterling securities, not to be sold necessarily, the interest on those sterling securities going to the good of India?—I should not like that at all for a number of reasons. I should not like the 20 millions to be held in India in gold, partly because it would earn no interest—you may think that a good reason or a bad reason, but still it is my reason, such as it is; and partly because to send it out to India when its real purpose would be only to be sent back again would seem to me to be a very wasteful proceeding indeed. That is as regards your 20 millions sterling in India. As regards the 10 millions sterling in England—

680. In gold?—Yes; I think that is more than there is any occasion to keep in gold, because if one can get the right sort of securities, Treasury bills, and so on, which in time of need one would have to sell for bankers' money, and not for gold, it is on the whole more advantageous to keep a smaller sum in gold in England. As regards your further point, if you agree, as I am sure you will agree on further consideration, though perhaps not at present, that at some time you will have reached the highest reasonable limit that any one can think necessary for the accumulation of this fund, then it would be wasteful to go on accumulating the fund beyond the real necessity when you can use the money for other purposes, and for purposes for which it is very urgently required.

681. As we are all, I think, pretty well agreed that the first thing we must consider is the safety of exchange, does it matter whether you lose—I am speaking generally now—even so much as a million a year in interest so long as you make sure of the exchange being kept firm? You would lose a million a year, I allow, on the 20 millions, on the one hand, and the 10 millions, on the other, and my commercial mind does not like that as a rule; but still, for the sake of safety, I should be willing to keep the whole in gold. What do you think of it?—I feel confident that if one handles the reserve properly, and invests such portion of it as one does invest,

* Published by Cassell & Co., 1885.

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in suitable securities, the money required would be forthcoming when it is wanted. Even if I had no experience to go on, I should think that on *a priori* grounds; I think it the more strongly because I may say I personally have been through the experience of this crisis of 1907-8, the very exceptional severity of which you cannot doubt after the figures that I have put before you.

682. I think in that period which you were good enough to tell us about there was only one bad monsoon year; suppose we had three bad monsoons one after the other, where would you have been then?—I refer you again to the history of the last 40 years that is given in the various supplementary tables,* and say that in the same way as no business man, however prudent, conducts his business on the assumption that in one year there will be a war between France and Germany, in the next year a war between America and Japan, and in the third year a war between Great Britain and some other power; so one ought not—it would be an excess of prudence, and indeed nervousness—to carry on the affairs of a Government on the assumption that this series of calamities is to be provided against.

683. I think you said that in one year of very bad trade, 1907-8, you wanted 13 millions?—More than that; I think the proper figure is round about 18 millions. That, if you please, is two years, as it extended over the autumn of one year and the greater part of the next year.

684. (Sir Robert Chalmers.) The rupee is taken at 1s. 4d. in exchange?—Yes.

685. In that very simple way it differs from a shilling, which is only worth 12d. in exchange?—Yes.

686. Except that the 12d.-bit is a limited tender in England, is there any essential difference between that and a 1s. 4d.-bit, if you had such a coin?—No, except that, in practice, as you know, the Government has undertaken the support of the rupee in times of difficulty, and by so doing has created an expectation that it would do so in future times of difficulty. Except for that there is no difference.

687. There are analogies with the rupee in other parts of the world where you have unlimited tender, such as the West Indies and West Africa, for instance?—Yes.

688. Would you agree that the fact of this unlimited tender would be the most distinctive difference between the rupee and the shilling?—Yes.

689. In regard to the gold standard reserve, I understood you to agree that its primary purpose was to maintain the exchange with London?—Yes.

690. The need of providing the natives of India and other persons with sovereigns was a secondary one?—Quite so.

691. The object of the gold standard reserve was to build up a protection for the parity of exchange at 1s. 4d.?—Yes.

692. I think you said there was a great deal of unanimity between all Secretaries of State and successive Governments of India as regards the sum, I think it is four millions sterling, that is used from the gold standard reserve, or has been used, for the purchase of silver, and is kept in a silver form in India?—Yes.

693. It may be useful to the Government of India to get it so, but it surely is wholly diverse from the purposes of the gold standard reserve to use your sovereigns to buy silver and keep your silver in India? I do not enter into the reasons, but it is so, is it not?—I do not know what importance you attach to it, but if one is to maintain the parity of the rupee and the sovereign, one has to prevent the rupee from going down, and one also has to prevent the rupee from going up. Some authorities held in 1893, when the Mints were closed, that it would be a good thing to let the rupee rise up to 1s. 6d., and that, though it was an arguable proposition, was never accepted. If you have this extra stock of rupees in the gold standard reserve it is an extra safeguard against the rupee going above 1s. 4d., which is a point of no inconsiderable importance.

* See e.g., Appendix IV., page 107.

694. Would you agree that there is a certain amount of anomalous appearance in using gold to purchase silver as a means of maintaining a gold standard?—If you say, as a means of maintaining a gold standard, and imply by that preventing the rupee from going down, I should quite agree with you, but I may say that I am quite serious in mentioning that to prevent the rupee from going up beyond this 1s. 4d. is a matter of some importance.

695. I will pass now to the other reserve you have got, the paper currency reserve. Does the paper currency consist of notes which are issued, and which are payable in silver rupees by law?—No; that is the view which is often mentioned by critics or students of the Indian system, but it is not absolutely correct. The note is payable in legal tender money of the Government of India, and the Government of India has therefore the option of paying either in rupees or in sovereigns, whichever it pleases. It would be a very arbitrary thing for the Government of India, among a rupee-using population, to insist on paying sovereigns, so that the real fact and what you stated in your question come very close together, but what you stated was not absolutely correct.

696. I am obliged to you for your answer—the position being in fact very closely analogous to that which exists in France as regards the payment of a Bank of France note?—Yes.

697. They could pay in gold or in five-franc pieces at their option?—Yes.

698. How did you come to the plan of having first an English branch, a London branch, of the paper currency reserve?—It originated in some correspondence between the India Office and the Government of India, which I think you will see in papers that Mr. Newmarch is submitting (see Note III. to Appendix VIII., pp. 284-8). The objects aimed at—and that I imagine is all your question is intended to get from me—were two. One object was that when silver has to be bought because the rupees in the paper currency reserve are very low, it is an advantage to be able to take out gold from the portion of the paper currency reserve held in London, and buy silver with that; it is a most expeditious and convenient way of doing it. Then, secondly, there are occasions when it is desirable to use that gold for the purpose of supporting exchange.

699. By transfer?—Yes, you know the nature of the transfer, do you not?

700. Yes. There are statutes that govern the paper currency reserve, are there not?—There is a consolidated statute.

701. As regards the gold standard reserve there are no statutes?—No.

702. That is at the immediate discretion, subject to publicity, of the Government of India and the Secretary of State in Council?—Yes.

703. Have you thought at all about taking steps to give legislative sanction to the arrangements under which the gold standard reserve is dealt with?—No.

704. I want to ask your opinion now, if I may, on a question of a somewhat hypothetical character. You have got a gold standard reserve which holds silver in India?—Yes.

705. And you have got a paper currency reserve which has got gold in London?—Yes.

706. Would it be possible, in your judgment, to bring together those two things, the paper currency reserve and the gold standard reserve, under commissioners obeying statutes, very much as the Issue Department with us in England?—Yes.

707. In fact to have Commissioners dealing with the issue of notes in India and with the maintenance of the gold standard exchange?—No doubt it would be a practicable thing to do, but before any Act constituting such Commissioners could be advantageously passed, or even introduced, it would be desirable to have considerable unanimity as to what the system should be. As you realise, the work that we have done during the last 15 years in building up this system has been pioneer work, and from time to time there have been different views taken, possibly even mistakes have been made. It is much easier to legislate for a paper

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currency and to put that into the hands of Commissioners, because it is worked on very simple lines, than to legislate in that way for a gold standard reserve, the nature and application and location of which are to some extent matters of controversy.

708. Apart from controversy, you would be prepared to agree that very cogent arguments are necessary to deny the claim for the statutory organisation of the gold standard reserve at the point we have now reached?—It is partly a question of the habits of people's minds. When one is dealing with, say the Crown Colonies such as Singapore and West Africa, one's thoughts immediately turn to a statute which is to regulate the behaviour of Currency Commissioners or other similar bodies perhaps with rather different names. In India it has not been the practice to any great extent to create bodies of that kind with strict legislative definition of their functions, and to the Indian official, and to the Indian public, the absence of such a statutorily constituted body to deal with the gold standard reserve does not, as a rule, appear striking, I should say.

709. To the public might it not seem an added guarantee?—It might. It is really a question of public opinion. The Karachi Chamber of Commerce, as you know, thinks that the management of the gold standard reserve should be defined by statute; that is in the papers that have been circulated. I think it is the only body that has made such a proposal.

710. As regards the holding of gold in India, are you quite clear that as a matter of mere economics it would be wrong to hold your stock of gold, whatever may be its amount, away from the spot at which it could be required?—You say as a matter of economics—yes.

711. Would there be any other argument in your opinion on the other side, except one of what we may call a national sense?—No, absolutely no argument at all except that.

712. In your opinion?—In my opinion.

713. (*Sir Ernest Cable.*) A good deal has been said this morning about the silver held in India and the gold standard reserve, but I notice that in Appendix III. you mention that the arrangements were perfected which would avoid hasty coinage in future; I think it was one of the objects of that reserve to avoid hasty coinage?—That was one object.

714. I understand also from Appendix III. that the arrangements were effected by which any hasty coinage will be avoided; is there any longer any reason on that account, at all events, for holding silver in the gold standard reserve in India?—I do not think that that reason is now a good one for holding the Indian branch, but in Appendix III. I have given a wholly different reason, which I think is a good one, that is to say, it provides in a way which otherwise might not be easy to provide, for the expansion of the currency at particular times.

715. When you coined this silver and kept it in the gold standard reserve there was some profit on the coinage; did you credit the gold standard reserve with the profit?—It is rather the other way round. When certain silver was being coined, and I think coined mainly to put into the paper currency reserve, there was a profit on it, a profit which naturally accrued, in the first instance, in the form of so many extra rupees, and these extra rupees were kept in the Indian branch of the gold standard reserve, and formed the Indian branch. You pay a certain sum which is equivalent, say, to 100 rupees in order to buy silver, and then you get silver out of which you coin, say, 130 or 160 rupees, and the odd 30, or the odd 60, is the profit.

716. And that is now credited in the reserve?—Yes.

717. I do not think the reasons for the location of the gold standard reserve were quite brought out this morning. Do you not think, even at the cost of losing some interest, that if it did buttress public confidence, so to speak, it would be advisable to keep a large sum in cash in India?—I think that the only thing to be said in favour of that is that a certain number of people might like it and feel their national sentiment gratified. Since it would involve a very considerable expenditure

one way or another, even if it were merely the expenditure required in order to take the money out and then in times of need bring it home again, I think that I should be rather slow in meeting that sentiment unless its existence were much more clearly demonstrated than it now is.

718. In paragraph 9D of Appendix III. (pp. 89–90) you gave as one of the reasons for not holding the gold standard reserve in India, that the gold would not be exported but would pass into use in India for circulation and other purposes, and on this ground you hold that the gold has failed to fulfil its original object, namely, the maintenance of the par value of the rupee; but is it not the fact that by the issue of gold on the one hand, and on the other the corresponding withdrawal of the rupee, the gold value of the rupee would be raised?—That is a view which I have often heard, but with which I do not agree, assuming that you mean immediately raised. The mere fact that the number of rupees in circulation is reduced, and the number of sovereigns in circulation or available for circulation is increased, does not seem to me to affect materially the exchange value of the rupee. As I was explaining to Lord Faber, and I think he quite accepted the explanation, the exchange value of the rupee in the international sense, depends on the balance of international trade and international indebtedness, and an alteration of the mere quantum of rupees in circulation does not, I think, affect it. I quite admit that if that alteration in the quantum of rupees affects prices in India and affects the amount of export trade and so on—

719. It would cause a fall in prices?—That then it does tend to steady exchange. But such a fall in prices as you suggest, would probably occur rather slowly, whereas an exchange difficulty should be set right with the least possible delay.

720. I think Lord Faber suggested certain figures to which the gold standard reserve should be raised; of course, it is impossible to fix any limit to that, and in fact I do not think he attempted to do so, and the only way to do it would be to hold frequent conferences with chambers of commerce and so to get their views as to the amount that should from time to time be held in the gold standard reserve; what would you say to that?—I am always in favour—and I may say that I have been in every branch of my work at the India Office—of frequent consultation orally as well as by letter with the qualified representatives of the commercial community. If from time to time there were a discussion between the India Office and the leading members of the commercial community at Calcutta or Bombay, I think it would be to the advantage of all parties concerned—it would help to solve that particular question that you mentioned, and would probably remove misunderstandings.

721. Sir Robert Chalmers asked you about the amalgamation of the two reserves; I think he dealt with the question more from the point of view of administration, but I should like to ask whether there would not be a practical advantage from the business point of view in amalgamating the two reserves?—I think in some ways it would be a convenient thing to amalgamate them, but there are some considerations on the other side. You know, no one better, how very sensitive and conservative Indian public opinion is in these matters. To mix up a paper currency reserve which serves one purpose, and a gold standard reserve which serves another purpose, might shake Indian public opinion. Then there is also a practical danger in the way of amalgamation, which perhaps you have thought of, but I might mention it. As I was saying before, the paper currency gold is meant to flow out in good times and the gold standard reserve gold or securities to be held as a reserve until bad times come. If you amalgamate those two reserves, which have gold that has to be used for quite different purposes, you may fail to notice the difference of the two purposes, and you may treat the whole of them as though held for the same object. I do not say that that is an insuperable difficulty, but at any rate it is a danger which has to be borne in mind.

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722. Do you consider that the increase in the quantity of gold in circulation in India would provide a reserve against a falling exchange, and therefore it might be desirable to encourage the circulation of gold?—There is a certain advantage in it. I myself rather hold the view which has been put forward by many eminent writers that what you may call the waistcoat-pocket money of the population is not of much use for steadying foreign exchanges, and that if one is in the habit of carrying 5*l.* in one's purse one goes on carrying 5*l.* in one's purse whatever the international situation, and that sort of money does not come out at a time of crisis or of a falling foreign exchange. But, of course, that is a doctrine that has to be pushed only up to a certain limit; occasionally that circulating money is of some use.

723. (*Sir Robert Chalmers.*) That was the view taken by Lord Goschen when he was Chancellor of the Exchequer, was it not, nearly 25 years ago, at Leeds?—Yes. It is one of the few doctrines under discussion now on which one has an expression of opinion from one whom I may call my late colleague Mr. John Stuart Mill. He was very strong on the comparative ineffectiveness for steadying foreign exchanges of the gold that is in actual circulation; the passage* has often been quoted.

724. (*Sir Ernest Cable.*) It has been stated by some people that gold is becoming scarcer and that the Indian absorption of gold is regarded with alarm in some quarters; is it not the fact that the production of gold during the last 10 years has increased at a faster rate than the trade of the world?—I cannot say that it has increased faster than the trade of the world, but I know that the increase in gold production has been very great indeed. The fact of prices going up is probably an indication that gold production has increased faster than trade.

725. You have stated in your memorandum that if you were asked to give evidence as to how the silver purchases were regulated you would explain the improved system. Will you kindly give us that information?—In answer to the Chairman I referred to the memorandum of 1910, and I really think that all that is of considerable importance is to be found in that memorandum (see Enclosure to Despatch to the Government of India, No. 25, of 18th February 1910, Appendix V., pp. 188-94). Of course, you have to read it with the letter from the Government of India, in which, subject to some slight reservations, they accepted the principles of the memorandum. (See No. 48, dated 29th February 1912, page 195).

726. To take you back for one moment to your evidence of the other day, you stated that the Mahratta Railway loan was not going well; do you not think that a 4 per cent. Government railway bond with the interest secured on the Government railway revenue, and paid within a fixed period, would be a most popular security and would procure for the Government all the funds they need for railways?—If one were considering merely one year's operations, I have no doubt that an issue of terminable bonds would be very proper, but, as I think I have mentioned, or as I intended to mention if it were put to me, if you have an illimitable series of years in each of which you have to borrow money, and then you create a series of terminable obligations, when the time comes at which the first batch mature you are apt to find yourself in great difficulties. I merely put that as indicating that what you propose can only be applied successfully if applied with very great moderation; and probably you yourself would agree to that qualification.

727. (*Mr. Keynes.*) There are one or two points of detail that I would like to have a word or two about first. About the term short-dated securities, would you include any security with less than five or six years to run?—Yes; but, of course, if all one's securities had so long to run as that I should not regard the whole of them as a good assortment of short-dated securities.

* Principles of Political Economy, Book III., Chapter XXII., § 3 *ad fin.* (p. 187 of Vol. II. of Messrs. Longman's Edition of 1878).

728. I think the Chairman asked the question whether they were always realisable; would you hold that for instance New South Wales stock maturing in 1918 is as easily realisable as Consols which have no date of redemption?—It depends on the quantities. Supposing you wanted to realise many millions, you might find a difficulty, but within a moderate limit of amount I should think that it would be very realisable assuming, of course, that the repayment is obligatory and not at the option of the borrowing Government.

729. Would you not say that the buying of short-dated securities is an insurance against the depreciation which is due to a long-period change in the rate of interest—but that is not the same thing quite, as easy realisation. Would you not say that the advantage of New South Wales stock repayable at par in 1918 over Consols is that you have insured against the rate of interest falling in the intervening period?—Yes.

730. But that is not the same thing as having something which you are quite sure is marketable at a given moment?—Quite so. There are two quite different considerations. It is quite possible to secure oneself against depreciation without attaining easy realisability. An extreme instance would be if one lent money on mortgage on private estate. That might be very unrealisable, although you had the security against depreciation. I quite recognise the difference. Our main object in seeking short-dated securities has been to attain realisability: it has not been so much, though the two are connected to some extent, to avoid depreciation. Whether we in every single investment have been absolutely wise is another question.

731. In the last five years your policy has shown a great reaction against the purchase of Consols?—Yes.

732. Would you argue then that you have done that because you think Consols are less realisable than they used to be, and not because Consols have become unpopular through having fallen in value steadily?—I am not sure that you put the distinction quite as I understood it. The advantage of short-dated securities is, first, that you can realise them readily, and secondly, that you can realise them without loss. In one case it is speediness of realisability; in the second case the freedom against loss. The speediness of realisability is what I think has weighed more with the India Office; that is certainly what has weighed more with me personally.

733. And you think on that score there has been good reason for reacting against Consols?—I think so. Of course I am influenced very much by what I hear from financiers of my acquaintance, bankers and so on. In 1908, when we had to do a great deal of realising, as you will see from the figures, we did not find any considerable difficulty; but in subsequent years we have been impressed by the fear that we might possibly find difficulty.

734. I wanted to get the point clear as to whether you had reacted against Consols, because of their long fall in value, or because you thought they were less realisable than they used to be; that second reason is the one which has weighed most?—Yes.

735. (*Chairman.*) You distinguish two advantages in short-dated securities?—Yes.

736. One is that they are more immediately realisable, and the other is that they are immediately realisable without loss?—Yes.

737. Is there anything you could hold which you can with more certainty realise immediately than Consols? You observe that on this occasion, I do not say without loss, but is there any security you could have which is more marketable than Consols?—No doubt that is the most marketable of all the permanent securities. I should say that Treasury bills at a time of difficulty are much more marketable than Consols.

738. If you wanted to realise 10 millions to-day, would it be easier to realise 10 millions in Consols supposing you had them, and subject to a possible slight loss, or 10 millions in short-dated securities?—I should say—but of course I speak with some diffidence—that it would be easier on a day like this, which as you know is not a very happy day financially—

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739. That is why I choose it—?—I should say that it would be easier to realise, if one went to the right people, bankers and so on, 10 millions of short-dated securities of the same standing. Of course I am not comparing Colonial Government securities with Imperial Government Consols, but comparing the Treasury's Treasury bills with the Treasury's Consols.

740. At the moment there are not many Treasury bills out?—The number has decreased.

741. If you wanted to realise a large quantity of short-dated securities you would have to sacrifice your interest at least, would you not?—Yes, you may have to sacrifice the interest that has accrued.

742. And you might have to sacrifice possibly something more?—Yes.

743. So there is that to be set against any loss in price which you would incur if you sold Consols?—Supposing one had to sell 10 millions of Consols to-day I should expect that the loss would largely consist in a sort of insurance by the purchaser against the risk of a further fall. He would buy hoping naturally that they would go up hereafter, but with the knowledge that they might conceivably go down, and probably in the price of so large an amount he would cover himself very liberally against the risk of the Consols going down.

744. If you were selling Consols you would be dealing in a larger market than if you were selling short-dated securities?—That is quite true, and when you are dealing with hundreds of millions that would be a point in favour of Consols for us, but when you are dealing in such a sum as 25 millions, then I think the money market as distinct from the investment market, is big enough to enable us to do what we want to do.

745. (Sir James Begbie.) On the question of the sale of securities has the experience not been that you have had to sell comparatively small amounts in one week; in 1908, for example you never had to sell more than a million at a time, had you?—I think that the biggest individual transaction that we arranged was when we sold two millions to the National Debt Commissioners; that is my recollection. But I quite agree with you that if you were selling week by week a million a week would probably be as much as one would like to sell.

746. (Mr. Keynes.) I may assume, therefore, that the reason why you have the miscellaneous selection that I see in this list, of three kinds of New Zealand debentures, two of Queensland, three of New South Wales and so on, is because you think they are more easily realisable than Consols or at any rate mainly for that reason?—Yes, but of course you have to have regard to the comparatively small amounts of them.

747. In the course of your evidence in answer to the Chairman, you drew our attention to the exceptional severity of the crisis in 1907, and as a part proof of that you handed in Statement 3, Appendix IV. (page 108), showing how very much more the trade balance dropped in that year than in any previous year of famine. I notice that in that table the chief explanation of that is to be found in the high level of imports; would you agree to that?—It is a common experience that when our exchange gets into difficulties and when one looks for an explanation to a reduction of exports, which is where one would look for an explanation, one finds it very incompletely there, but one finds, as a rule, a surprising increase in imports. You ask me whether I agree to it in that one particular case, and of course I do because the figures speak for themselves. I was going merely to draw your attention to the fact that in other periods of notoriously difficult exchange the same thing is to be noticed.

748. In this actual year, 1907–8, the imports were at a considerably higher figure than in any of the preceding years, or than in the two years following. I suppose the explanation of that would be that it followed on exceptionally prosperous years, and that they were really purchases that had been entered into previous to the famine?—No doubt, and that no doubt would apply to the imports of merchandise, and to some extent also to the imports of silver which follow the same course.

749. Would you hold that that was a very exceptional circumstance? On a future occasion might it not happen that the crisis, when it came, would come immediately after two very good years?—It might; there is no special reason why it should, but if it did no doubt there would be still, as you say, imports coming in as the objects on which cultivators were spending their extra earnings, and that would tend to aggravate the exchange difficulty. I quite agree with the general line of your remarks.

750. Would you agree to this further development of the idea, that in 1907–8 the Indian public had got more into the habit of buying foreign goods than they were on the occasion of the previous famine, and that that tendency continues?—No doubt.

751. Therefore, this buying of foreign imports in advance is likely to be a factor more important in the future than it has been in the past, in the 90's that is to say, from [which you argued?—Yes. That, I think, is a good ground for criticising and modifying the inferences to be drawn from the figures of the 20 years that I have given. I have nothing to say in opposition to that line of criticism.

752. Further, in using the experience of 1907–8 I suppose you would agree that allowance ought to be made for the increased scale of the whole foreign trade since that time?—Yes, certainly.

753. That if the imports and exports have increased 20 per cent., or whatever it is, you ought to add on to your experience of 1907–8 a corresponding percentage?—You ought to add on something.

754. Would you agree that in 1907–8 the complete absence of any banking trouble in India rather altered things?—Do you mean that the exchange difficulty would have been greater if Indian banks had begun to go wrong?

755. Yes?—I am not at all sure. I have often thought about it; it depends what kind of bank one has in mind. I daresay you have noticed that if the exchange banks got into difficulties and their customers in India drew out the very large deposits that are due by the exchange banks to their customers, the exchange banks would, somehow or other, have to send out money to India in order to satisfy their customers, and that in a very calamitous way would tend to set the exchange position right from the Secretary of State's point of view. I think you follow what I mean, and that I need not expand it in detail.

756. I only wish to get your opinion on the matter. I should like now to ask a series of questions directed towards the relation between the gold standard reserve and the other reserves. I take it that the stability of the rupee is supported not only by the gold standard reserve, but also by the gold of the paper currency reserve, and any other sterling resources which the Government happens to have?—Yes, certainly.

757. The gold standard reserve is built up from the fruits of the economy of using token silver coins?—That is so.

758. And the presence of the gold of the paper currency reserve is due to the fruits of the economic using of the paper currency?—Yes.

759. Then the two reserves are distinguished in origin?—Is that quite right? When we are wise enough to coin a 10d. rupee and put it into circulation at 16d., that is wise economy, and the profit, as you truly say, goes into the gold standard reserve, and your description is quite right. But when a man brings you two sovereigns and you issue 10-rupee notes to him instead of issuing to him in exchange 30 individual rupees, I am not sure whether there is any close analogy between the building up of the profit and the economy, is there?

760. I should say that the analogy was almost perfect, but perhaps we are at cross purposes?—One is an obvious economy, and I quite agree with the way you describe it. The other seems to me to be merely an exchange between a full-value sovereign and 15 rupees, in which the results of economy are embodied. I do not wish to interrupt the questions, because if I do not follow what you said on this particular point, I do not suggest that there is any serious difference between us.

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761. The only point I wish to make is that the two reserves are distinguished in origin?—That is so.

762. How do you distinguish their uses—I am speaking now of the gold branch of the paper currency reserve and the gold branch of the gold standard reserve?—Are you asking me to repeat what I mentioned in answer to the Chairman and Sir Ernest Cable, that the gold of the paper currency reserve, so far as it is held in India—

763. I was thinking of the chest in London?—To all intents and purposes there is no difference between the use, except so far as you may say that the gold in the paper currency reserve in London could be used to pay for silver; but that one may put aside. You are asking, no doubt, with reference to the use of that particular gold to support exchange; in that respect there is no difference.

764. In paragraph 7 of Appendix III. (pp. 88-9) you suggest that 5 millions sterling is a suitable amount to hold in gold in the gold standard reserve; is this amount contingent on the amount earmarked in the Paper Currency Chest?—When I wrote that I was assuming that there would be gold held in the paper currency in London.

765. Were you making any assumption as to how much?—No. We have for some years held sums varying between 5 millions and 7 millions; occasionally they have gone up a little; I had in my mind about 5 millions.

766. Your view then is that you ought to hold about 5 millions in the gold standard reserve if you are holding from 5 to 7 millions in the paper currency?—I would not crystallise it too much. Supposing that at a particular time one had very little in the paper currency, I do not think that I should hold that one ought to increase the amount in the gold standard reserve, but still I should not seriously dissent from what you said.

767. My point was how much gold you want to have in London altogether to whatever reserve it is credited; and I wanted to get at your notion as to what the proper figure for the total gold in London was; it does not seem to me that the particular way of crediting it is of such fundamental importance?—It is very indeterminate. One wants to have, I think, at least 5 millions, preferably more, which you can use almost at a moment's notice, which at any rate you have so much under your control that at the beginning of an exchange crisis you can offer to sell, say a million of bills, of the kind that was sold in 1908, per week for several weeks, and feel that you are provided with the means to meet them.

768. You will want to hold some gold, and I was wondering whether you had settled at all in your own mind what the amount should be in present circumstances?—No. I do not think that one can give anything more than one's own estimate of how much would make one feel quite comfortable with this responsibility of meeting an exchange crisis on one. I should say that if one were as low as 5 millions, one would not feel that one was ill-provided for, that if one had 10 millions one would feel that that was rather better but not a wasteful amount, and that if one had more than 10 millions I should feel at any rate that it was rather wasteful. I do not think I could put it more definitely than that.

769. Are you of opinion that the amount in the gold standard reserve, which ought to be lent at short notice in London, is in any way contingent on the amount that is lent in this way from the general balances?—Only in this way, that if we were lending from our general balances as much as our approved borrowers would take it would be difficult to lend from the gold standard reserve as well, and certainly one ought not to be lending so much that approved borrowers of less than the very highest standing were accepted in order to find a clientele.

770. You would argue in this way: that as long as it was your normal practice to have 5 millions or 6 millions lent at short notice from the general balances, then that 1 million lent in that way was enough from the gold standard reserve; and if your normal practice changed so that you only lent, perhaps, 2 millions from the

general balances, then you ought to have more in the gold standard reserve lent in that form?—That, if I may put it in an almost primitive way, is not quite the way my mind works in these matters. I think what is behind your question is this: that the smaller your general balances at any given moment the larger your special reserves ought to be, if you are to be well equipped for meeting a sudden fall in exchange.

771. Particularly, that the smaller your general balances, the larger your special reserves ought to be in the most liquid shape?—I think that the reason that I am not able to answer you quite as directly as I should like is that in preparing for an exchange crisis, or in considering how one will prepare for it, one has in mind that one will rely on certain special reserves, and one leaves the general balances out of consideration, thinking they will just be enough to pay the ordinary current expenses, and that they will be of no help for the exchange crisis. I realise that if at a time when our balances had risen as they have recently to a very unusual height, 18 or 19 millions, an exchange crisis had then come, those high balances would have been very helpful to us.

772. I can understand your taking the view that the general total of the reserves ought not to be influenced by your temporary balances, but would you also hold that the form in which you ought to keep your permanent reserves is uninfluenced by the amount of temporary balances that you have?—Yes, because according to my view, and if I may so put it, our system rather stands or falls with its correctness, the various reserves that one holds can be realised when we want them. It is true that we cannot realise 4 millions of Consols advantageously in a week, but we have built up a system so that, if we saw the need for realising all our reserves, by the time we wanted our 4 millions of Consols we could have realised them, and our gold and our short-dated securities and so on would last us during the period required for the realisation of the Consols. I hope I have made it clear that that is why I do not attach, if you do not mind my putting it in that way, very much importance to the consideration that you were last mentioning.

773. You would not feel at all that as long as it is the policy to hold 5 millions or more in the general balances at short notice, there is no need of holding a million as well in the gold standard reserve at very short notice?—No, because I feel that the general balance is hypothecated for quite different purposes. Also, just let me mention this to remove a possible misapprehension as regards fact: one speaks about our 5 millions or 6 millions as a standard for the general balance, that is to say, for the closing general balance on 31st March in each year; but that is a very fluctuating sum. As I mentioned previously, in the course of a few days we might be paying away 3 millions or 4 millions, and those occasions when we have very heavy payments recur at least four times a year, when the quarterly dividends have to be paid.

774. You have suggested 25 millions as the proper limit of the gold standard reserve (see paragraph 19 of Appendix III., page 93); is the suitability of this particular sum in any way contingent upon the amount of sterling resources held otherwise?—I had in my mind that we should probably have 5 millions of gold in the paper currency reserve in England. That was the only special resource that I assumed. I assumed that our general balance would not be exceptionally high or exceptionally low, because it would serve the primary purposes that it is meant to serve.

775. Your view is then that about 30 millions is the proper limit for all your sterling resources which are connected with the support of exchange?—Yes. I should call that a liberal limit.

776. In calculating the proper amount of the gold standard reserve, are you considering merely the obligation under which the Government of India lies to support exchange and to be prepared to change into sterling all rupees and notes presented; or are you considering other possibilities as well?—Would you indicate the other possibilities that you have in mind?

777. Are you considering the possibility that the Government of India would have to assist the Indian

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money market at a time of severe crisis, or merely that they should change into sterling such notes and rupees as the Indian money market should tender to them?—I have always assumed that if in a time of severe crisis the Government of India had to assist the Indian money market, it would assist it in India, and that the need for granting such assistance would not make any demand on the sterling resources which we have been considering.

778. If the Indian money market were helped in India that would increase the amount of funds available in the hands of Indian bankers for tendering for sterling bills, would it not?—May I answer you in this way, that you are regarding, if I understand you rightly, the amount of the drain that may come on our sterling resources as a certain function of the currency which Indian bankers and the Indian public could tender for the purchase of bills on London; but I regard it as a function not of a certain quantum of currency but of a certain balance of foreign trade, and all my arguments and calculations are based on that.

779. I am glad that point has been brought out. I myself should not say that it depended necessarily upon either of those, but it depends upon one or other of them according to the policy adopted; therefore I ask you which policy is adopted? Let me put it in this way: if the existing volume of the currency is the test then it seems to me that implies a policy of only giving sterling for rupees and notes; if the balance of trade is taken as the test then some other standard is applied. Would you agree with that?—I have always taken the balance of trade as the proper measure of the possible liabilities that would have to be met in a period of exchange crisis, and I have disregarded the quantum of currency altogether.

780. With reference to a question which Sir Ernest Cable asked, do you think that when a certain point is reached in the accumulation of the gold standard reserve it is the profits on the further rupee coinage which ought to be diverted, or rather the interest on the former accumulations that should be diverted?—I do not think it matters very much, but I do not see how anyone could answer that with any definiteness. My feeling, as was brought out, I think, by the Chairman and other questioners, is that if you have worked up to a certain sum as being a suitable reserve at a given time you must let it go on increasing by moderate increments year by year, or decade by decade, so as to provide for the natural growth of trade; and whether it is better to let it grow by the accretion of interest or by the accretion of profits is a question to which I could scarcely give any useful answer.

781. I put a more precise question than that. When you say after 25 millions has been reached further sums should not be credited to the gold standard reserve, do you mean that the interest of those 25 millions should not be credited, or that when further rupees are coined the profit on those rupees should not be credited?—I think I fully understood your question, and I am sorry if I did not make my answer clear. My answer was intended to be this: you must go on, or it is desirable to go on increasing your fund year by year; whether you increase it by adding the interest and diverting the profits or whether you increase it by adding the profits and diverting the interest is a matter on which I do not feel that I, or indeed anyone else, could give an opinion of any great value.

782. I had not understood that the 25 millions you suggested was a figure which is only valid, as it were, for the moment?—In this as in many other things one is always in a state of flux. If 25 millions is valid now, then 25½ millions will be valid next year, and 25¾ millions the year after—I am taking, perhaps, rather large increases. As the business of India increases so ought your reserve to increase by an amount or in a ratio which it would be affectation to pretend to define with any exactness.

783. I understood you to say that when the gold standard reserve had reached 25 millions no more ought to be accumulated. I understand now that what you are saying is that if the gold standard

reserve were 25 millions now then no further accumulations ought to be made; is that right?—What I meant to say was this: Until we have 25 millions let us have the full profit and the full interest; when we have reached 25 millions then do not let us say the fund has reached its maximum, but let us provide for accretions on a smaller scale than hitherto; let us either add the interest but not the profit, or the profit but not the interest, or some proportion of the profit. I wish to be rather indefinite. I only wish to put forward the view that some accretion, but not so much as now, should take place when the 25 millions is reached.

784. I wish only to elicit the precise nature of the indefiniteness, if I may put it in that way. Turning to the Indian branch of the gold standard reserve, is it not rather confusing to the public that the gold standard reserve should hold silver?—Yes, I think it is, more especially because the true explanation, or at least my view of the true explanation, has never been put before the public. What has been put before the public is rather the view that this Indian branch is a bulwark against hasty coinage, which does not very much commend itself to my mind. I think that what I regard as the true view is quite comprehensible, but I should agree that though comprehensible it is perhaps not easily comprehensible.

785. Would you mind explaining what the reasons are against the book-keeping transaction by which 4 millions of gold would be transferred from the paper currency reserve to the gold standard reserve, and 4 millions of silver transferred from the gold standard reserve to the paper currency reserve; why should that not be done?—The difficulty is simply this: We may assume that the rest of the Paper Currency Act is going to stand as it is, because what I am going to say depends upon that assumption. If you wish at any moment to take out your 4 millions of rupees from the paper currency reserve you have to do one of two things; as I put it in answer to the Chairman, you have to apply one of two keys to the lock—you either cancel notes or you earmark gold. There are times when you would like to get at the rupees, but it is inconvenient to use either of these methods, and then, instead of these rupees being left in the paper currency reserve and in the gold standard reserve, you have a third and much easier method of getting at them, namely, you can either take a loan, which I do not think a good scheme, or you can make an investment in securities in England as against the rupees that you have taken out from the Indian branch.

786. That is to say, more latitude is allowed as to the manner in which the resources of the gold standard reserve can be held?—Yes.

787. So that if you have to make a sudden change, there are more ways in which you can do it?—That is so.

788. But apart from that there would be no advantage in holding any silver in the gold standard reserve, would there?—No; that to my mind is the only advantage.

789. Therefore, if the latitude which is allowed with regard to the gold standard reserve were allowed in the case of the paper currency reserve, you would then clear out the silver from the gold standard reserve altogether?—I am not sure that the Government of India would agree, but I am giving my opinion. My answer is yes; but I do not wish to commit anyone but myself to that answer.

790. So that the explanation of a practice which is rather confusing to the public is that it is simply a detail of the machinery?—Yes.

791. And has no real fundamental significance?—I do not think so. Of course, the general public who are accustomed to the Bank of England method of keeping a note reserve, which seems to me as unscientific a method as could be devised, would regard it as a very serious departure from orthodoxy that the greater latitude should be allowed in respect of the management of the Indian paper currency reserve. I do not think that there is anything in that view, but still it is widely held, or it would be widely held, if any change were proposed.

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792. In paragraph 4 of Appendix III., page 88, you mention that $1s. 3\frac{3}{4}d.$ was the price at which sterling bills on London were sold in Calcutta; why was this particular price adopted?—We were told at the time that if bills were offered at that price bankers would take them in preference to taking gold, as it was just a shade more favourable to them than taking sovereigns. Whether that was a good reason or not I do not know. As one goes over it one sees that it is not particularly conclusive, but one wants to have the price that is nearest to the effective gold exporting price, and I think that $1s. 3\frac{3}{4}d.$ does answer to that.

793. I do not want to press you about this next question, but it is very important for Indian business men and bankers to know beforehand the maximum fluctuation of exchange; would they, in your opinion, be justified in assuming that that would be the price at which sterling bills would be sold on a future occasion?—Without being indiscreet one may say that when a Government has once conducted an operation of this kind on so great a scale, it is exceedingly difficult for it not to do it again when a similar occasion arises. The presumption is, I suppose, that it would do it in the same way as near as may be.

794. Would you agree that to sell bills in Calcutta at that rate, namely, $1s. 3\frac{3}{4}d.$, corresponds to a state of exchange similar to that in which bills on Calcutta would sell in London at $1s. 3\frac{3}{4}d.$ or thereabouts?—Whether the difference is so much as the sixteenth which you assume I do not know, but there would be a difference in that direction, though I cannot say whether it is of that magnitude.

795. So, if that policy is pursued, the maximum fluctuation in the price of bills in London on India would be between $1s. 3\frac{3}{4}d.$ and $1s. 4\frac{1}{4}d.$?—Yes, taking your figures as correct. It may be subject to some slight correction.

796. Would it be dangerous from the point of view of the reserves to make that maximum range of fluctuation rather smaller?—No. I think from the point of view of the reserves there will be no great danger in slightly reducing it. Of course, one does want to have a maximum and a minimum. That is better than having a fixed rate.

797. Certainly; and I am asking about the amount of the range of fluctuation, assuming there must be some fluctuation?—As regards the amount, I do not think that there will be much danger. I am not very captivated by the idea of reducing what is not a very serious difference, because these maxima and minima only become operative in emergencies; it is not as though they governed the ordinary rise and fall in exchange in ordinary times. I should not like to express an opinion in favour of the reduction without thinking over it further.

798. But you are rather inclined to think that the present range of fluctuation errs on the side of excess rather than the other way, are you not?—I do not think that it is far away from the right amount, but if it does err I should say it does err a little on the side of excess. I would go that distance with you.

799. In answer to a question put to you earlier today as to whether the Government of India had an interest in economising gold, you replied, I think, that they had no interest when their central reserve was adequate, or something to that effect—they had an interest as long as they were building up a reserve, but not afterwards?—Yes.

800. Is not the diversion of the gold standard reserve and of the rupee securities of the paper currency reserve to railways a consequence of economising gold, and also a general advantage?—I think the answer to that is in the affirmative, but for the moment I am puzzled to see the connection between it and my former answer. May I put it in my own words to see if I have your meaning correctly? It would be advantageous to the Government of India when they had their full reserves built up to the proper amount to encourage the use of rupees, because in that way money would become available for railways which would not become available if gold were used instead of rupees.

801. That is my point?—The answer is clearly in the affirmative. I am sorry to have taken up your time by repeating it, but for the moment it was not quite clear to me.

802. Therefore the Government of India still has an interest in economising gold even after their reserves have been built up?—Yes; but it is not a point on which I should be very much inclined to insist, and may I explain to you why? So far as this is to be effective it implies that the Government of India would rather persuade a man who wants a sovereign to take 15 rupees, because out of that exchange there would be something that would be available to be spent on railways, namely, the profit on the 15 rupees. That is all sound and good, and I cannot deny it, but it does rather run counter to my old-fashioned notion that the first business of a Government when dealing with currency is as far as possible, without conflict with higher interests, to give the currency that the population requires. Of course you may say that to give a sovereign instead of 15 rupees does involve a conflict with higher interests.

803. (*Sir Shapurji Broacha.*) I think the Secretary of State, with the concurrence of the Government of India, appointed a committee in 1898, which is now known as the Fowler Committee?—Yes.

804. Their conclusions and recommendations were accepted in their entirety?—Yes.

805. By both?—Yes.

806. The Secretary of State has said about the conclusions of that committee, "His Majesty's Government have given to this report the careful consideration which its great importance deserves. They are impressed by the array of arguments and facts embodied in it, and they have come to the conclusion that it is advisable to accept generally and to act upon the principles which it recognises." Has not that the force of a law or statute to be followed for the future guidance of the Government of India and the Secretary of State?—It has very great authority, but from time to time points which were not before the Fowler Committee come up, and the committee's recommendations must therefore be supplemented, and occasionally the need might arise for modifying them.

807. I do not think the Secretary of State or the Government of India had made up their minds about maintaining the exchange at $1s. 4d.$ before the report of this committee; they had no previous basis to go upon, and according to my idea they had stumbled and erred before?—I am sorry to say I do not quite agree with you. Before the Fowler Committee there was a committee consisting of many very eminent men, the Herschell Committee, which really laid the foundation of our currency system.

808. How long are the conclusions of such a strong committee to last for the guidance of the Secretary of State and the Government of India? Are they to be broken in every respect before the ink is dry?—Certainly not. I hope that committee was not so treated.

809. That report was presented to the Secretary of State on the 7th July 1899, and before a year had expired large and absolutely new things were brought out, for instance, the putting of the rupee paper and gold of the currency reserve into sterling securities; and all this was done without taking advantage of the guidance, for even a few years, of the recommendations of the committee?—I think you are referring to Sir Edward Law's proposals of 1900, are you not?

810. Yes (*see paragraph 23 of Enclosure I. to Government of India's letter, No. 302, of 6th September 1900, Appendix V., page 119*); much of that was acted upon, though Lord Curzon was afraid that order was very large and he could not follow it?—May I explain to you that when profits on coinage accrued and they had to be dealt with in some way, it was necessary for the Government of India to propose some scheme for dealing with them?

811. Can we anticipate that the fate of this Commission will be the same before the year is out?—No. Just let me put this to you, because I am really anxious that you should not misunderstand the facts: Supposing

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[Continued.]

that this Commission recommended in general terms a State bank—I have no idea whether it will do so or not, but it is conceivable that it should do so—and laid down certain principles; then we should set to work and try to carry out those proposals comprehensively, and it is absolutely certain that half-a-dozen questions, or even 50 questions, would arise which had to be settled, for the settlement of which it would be useless to look to, say, the three paragraphs that this Commission in its report had devoted to the subject.

812. I think the strongest recommendation of the Fowler Committee is to be found in paragraph 60 of their report,* to the effect that the profit on the silver coinage should be kept in gold—?—May I interrupt you and say that according to my view, which I have tried to justify in detail, that did not mean metallic gold?

813. I think it meant solid gold. You sell the silver in the rupee for 42*d.* and you buy that silver for 28*d.*, so you put 14*d.* of profit on the silver into the gold reserve?—Yes.

814. Since 1902 the currency consists of one-third in gold and as to two-thirds in the intrinsic value of the rupee?—Yes.

815. Are you not breaking the currency statute by using that gold for other purposes? If you put it into securities without passing a law enabling you to do that, do you not violate the currency law?—No. You ought to remember that it was never proposed that this one-third of the value of the new coinage should go into circulation as currency; it was proposed that it should be held outside the currency as a reserve.

816. As Lord Faber says, the rupee is not protected by the intrinsic value of the silver; it is preserved in its actual entire value by that one-third gold and two-thirds of silver. Was it not, therefore, a violation to use that gold for other purposes than for the currency reserve before a year expired after the report of the Fowler Committee?—When you say it was so used before a year expired, are you referring to the investments?

817. Yes; you cannot make currency investments without putting it into a law. Have you passed a law to that effect?—This is a question, I understand, of the procedure that ought to be gone through before effect is given by a specific scheme to any of the recommendations of the Fowler Committee. If you were arguing or suggesting that statutory provision is required in each case I have not very much to say against it. I think on the whole it has worked very well under the practice of leaving the executive discretion to the Secretary of State and to the Government of India, but I can see a good deal to be said for the view that statutory regulation is better. I do strongly demur to the statement that there was any departure from the recommendations of the Fowler Committee.

818. There was a substantial departure within a year. Is the opinion of public bodies in India worth anything to the Secretary of State or to the Government of India?—Yes. You must realise that the Secretary of State attaches very great importance to the opinion of public bodies, and you will not forget this, that for many years after this action had been taken and was very well known the public bodies in India were very happy, and they uttered no word of remonstrance.

819. Do you remember that between the closing of the Mint in 1893 and the appointment of the Fowler Committee in 1898, the Government of India were under great aggravations to put the exchange at 1*s.* 4*d.*?—Yes.

820. The measures they took, to my mind, militated against exchanges at 1*s.* 4*d.*; it was not the wit of the Government of India nor of the Secretary of State that established the parity at 1*s.* 4*d.*, but it was established by a series of circumstances over which they had no control, and they found themselves astonished that it was established without anybody else's interference. Can you tell me what experience or reason the Secretary of State and the Government of India had to depart within a year from the recom-

mendations of the Fowler Committee?—My answer to that is that for the reasons* which I gave to the Chairman I do not admit that there was any departure.

821. Within a year you commenced changing and chopping and putting it into securities?—No. I maintain—whether rightly or wrongly the Commission must judge—that the overwhelming balance of evidence is that what was done in this matter was in accordance with the recommendations of the Fowler Committee.

822. You had no experience of gold coming in to such an extent as to bring the parity of exchange to 1*s.* 4*d.* until 1900 and 1901, and so soon as you got gold, instead of following the recommendations of the Fowler Committee for two, three, or four years, just to judge what steps you should take, you took the gold as in Alnaschar's dream, and went about putting it anywhere you liked without thinking of any future failure of flow coming along as it did in 1907–8?—Might I just interrupt to say that when the trouble came in 1907–8 the resources that we had put aside with the interest that had accrued, which was very considerable, were available to meet the trouble.

823. I think the first man to suggest it was Sir Edward Law, at least from your correspondence it appears like that. I suppose you do not know, but I know for certain, because I had it from him, that he recanted very much and went to the India Office and said he was sorry for having recommended that course and hoped that the India Office would see the utility of changing their course, otherwise there might be disaster. Have you any knowledge of that change of view on Sir Edward Law's part?—No. It is a difficult question because Sir Edward Law made a certain recommendation which was not accepted by the Secretary of State, and the Secretary of State introduced a different scheme. If there was a change of view presumably it would be that Sir Edward Law finally came to see that the Secretary of State's amendment was an improvement on the original proposition.

824. Lord Curzon, you will remember, did not agree to Sir Edward Law's amendment, for he says in his Minute of 8th July 1900, "I hazard these doubts not because I presume to set up my financial authority against that of the hon. member, but for two reasons; firstly, I am not convinced that they are necessary for the success of his own scheme; secondly, I have a natural suspicion of anything that may tend, in the present early stage of our currency policy, to cause alarm" (paragraph 4 (5) to Enclosure II. of Government of India's letter, No. 302, of 6th September 1900, Appendix V., page 123)?—May I interrupt you there for a moment? These remarks of Lord Curzon's relate to two proposals by Sir Edward Law which were never carried into effect—proposals regarding the paper currency reserve.

825. Then may I ask you to look at the despatch of the Secretary of State in Appendix V. (page 154), No. 62, dated 26th April 1907, in which he says, "Before dealing in detail with your objections to the course actually pursued, I wish to remind you of the circumstances in which it was decided to adopt it in December last. The London money market was at that time suffering from severe stringency, and it was a matter of direct and immediate importance to India that this should not be increased, since guaranteed debenture bonds amounting to 1,795,100*l.* were to fall due between 31st December 1906 and 18th February 1907, of which it was very desirable that 1,374,600*l.* should be renewed." Were you not making a mistake when you said that you were able to realise your securities in 1908? The greatest stringency was in December 1906. Supposing that a crisis had come on, what would have been the fate of these securities; would the Secretary of State have dared to sell eight millions securities at that time?—Just let me remind you that the end of 1907 and early in 1908—

826. I am talking of 1906–7?—I know, but I want to bring this in connection with it. When the sale of securities actually took place, a much worse financial crisis had occurred than is mentioned in the passage which you have just quoted. You must have regard to the relative proportion of

* C. 9390, page 18.

* Qu. 559 *supra*.

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[Continued.]

things. In this despatch which you are referring to, the Secretary of State says, "Between the two methods of liberating certain money in India, neither of which was open to any very great objection, I chose a particular method because it was less liable to cause a difficulty in the renewal of certain debentures." You must not build on that foundation the statement that if we had wished to sell securities for a very serious emergency at that time we could not have done it. We were merely exercising in this passage a little common sense, I take it.

827. Are not political considerations and market considerations taken into account when these large transactions are entered into by the Government?—Yes.

828. The Secretary of State was afraid that if this amount of a million and a quarter was to fall due it would hinder him in his financial arrangements if he took away a million or so of money from the Bank of England at that time?—Of course he was. When one has a number of operations to carry out for the benefit of India they are materially helped by an easy money market.

829. Let me tell you my personal experience. In the months of March and June 1908, the rate of discount had fallen to 2 per cent. and Consols had gone up to 88, which was not the case in 1906; so when the Secretary of State and you boast of having been able to realise those large blocks of securities, I think you did not consider what position you were in in 1906 and 1908. He was afraid in December 1906, to put the proceeds of the Council Bills in the Gold Standard Reserve, although the Government of India held the Treasury Bills to be drawn upon, and the Government of India wired to the Secretary of State that they were breaking the law in being asked to do what they were asked to do?—That is a statement of the position that I should not accept. May I just add a remark? If your argument is that Consols in very large quantities would not be easily realisable in a difficult money market, I agree with you.

830. Will you look at the telegraphic correspondence, beginning with telegram to Viceroy dated 18th December 1906, page 149, in Appendix V. The Secretary of State did an unlawful thing, did he not, in buying four millions of silver to avoid his difficulty and sending it out to India, for which the Government of India had no need?—That I must really demur to. In Enclosure No. 1 to the last despatch, No. 76, dated 23rd May 1913, pp. 207-8, you will see that there was no purchase of silver made in excess of the real requirements.

831. The Government of India said that they were forced to accept four millions sent to them for which they had no need, and which weakened the gold balances that would have been very useful for the next year?—I wish you to note that one part of the Government of India's statement seems to the Secretary of State to be so incomplete as to be almost misleading. The last word on that subject is in a document which has been recently added to the collection in Appendix V. and which perhaps you have not got. It is a despatch from the Secretary of State to the Government of India, No. 76, dated 23rd May 1913. The importance of that is that it does call attention to certain considerable omissions in that statement to which you have just referred.

832. I ask your attention to paragraph 5 of the letter from the Government of India, No. 48, dated 29th February 1912, page 197, in Appendix V.; you will see it said, "The Secretary of State, however, finally refused to earmark the necessary quantity of gold for the reason, among others, that he was obtaining 4½ per cent. interest on his balances; and to enable us to repay our forced loan from the Gold Standard Reserve he bought 4,000,000l. worth of silver in March 1907. Our silver requirements for the year had been carefully calculated by us before that"?—Without going into that statement in detail I say that it is a very incomplete statement that the Government of India made, and that it cannot be properly understood unless you read with it this despatch of the Secretary of State dated 23rd May 1913 and its enclosures.

833. What I am bringing to your notice is what the Chairman has already brought to your notice—certain circumstances of a difficult market, and to show how difficult the market at one time was?—Will you take it from me that I quite agree with you that at certain times the markets in London for the sale of securities are extremely difficult. I gather that that is the point that you wish to make, and I naturally quite accept it.

834. Again taking the Silver Reserve of the Gold Standard, has it ever been used up till now?—Yes.

835. It was used wrongly, as is shown by the reference to the four millions I have just quoted; and it has never been used under necessity?—It has been used on several occasions. As you will see from the statements I have given, rupees have at times been taken from it and at other times put back into it.

836. I suppose that was done once?—More than once.

837. The Secretary of State asked to borrow from the silver of the Gold Standard Reserve, and it has never been repaid?—No—pardon me. Loans have been taken from it more than once, and I think it has been a great convenience to take money from it temporarily and to repay it at different times. If you care to have those particulars look at Statement A. Appendix III., page 97, and you will see three footnotes referring to three several loans at different periods.

838. After that chopping and changing we come to the crisis of 1907-8, and during that crisis at one time it seemed both to the Secretary of State and to the Government of India that the exchange might break down?—It seemed, you mean, to the mercantile public?

839. No; when the Government of India proposed to give 10,000l. a day —?—Pardon me; let me put the true facts. We never had any doubts that the exchange would be maintained. I think that the Government of India at that time thought that it could be maintained with less support than proved to be actually required. That is the only significance of your incident of the 10,000l.

840. Before this crisis came the mercantile public of India were alarmed and suspicious, and questions were asked in the Legislative Council whether there was sufficient gold to maintain the exchange. Sir Edward Baker replied that there was sufficient for all possible contingencies. Then came the crisis, and the first result was that only 10,000l. of gold was asked for by a man from the Accountant-General of Bombay, and the Accountant-General said, "Why do you ask for it?" And he wired to Sir Edward Baker, and Sir Edward Baker said, "Gold is not for export; it is only for internal purposes." That was the first move, was it not, that the Government of India took for safeguarding the exchange?—I should not in any way wish to criticise what the Government of India did. I think that in this hoarding up of their gold they did not show the best possible judgment, and that the Secretary of State took that view is indicated by the telegrams that you have in Appendix V. But that has little bearing on the question whether we did ultimately maintain exchange when this crisis occurred.

841. I do not think the Secretary of State said that?—I do not know whether you have seen this rather interesting telegram. The Secretary of State telegraphed out—"Please inform me if it is the case, as reported here, that you have informed the exchange banks that you will not give gold for export while you continue to give it for internal purposes," and the Government of India gave a kind of explanation. I would draw your attention to the telegrams dated 21st and 27th November 1907 on page 164 of Appendix V.

842. I want you to look at the Secretary of State's telegram of 28th November 1907 in Appendix V. in response to the Government of India in which he said it is a temporary measure to which he does not bind himself, which alarmed the whole Indian public. That was after receiving the advice of the Indian Government to sell or buy 250,000l. a week. My object in bringing this to your attention is that fortunately at that time the Secretary of State was in a good position, otherwise, if he had been afraid to sell securities,

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what would have become of the Indian public and the exchange? Will you look at the telegram in Appendix V. dated 6th December 1907 (page 166), from the Secretary of State to the Finance Department, "Banks should be told that this communication is made because you recognise advantage of letting them know your views and intentions, but that it does not convey a definite pledge, and that Government reserves discretion to act as it thinks best in any future case on consideration of all circumstances then existing." So it was not an absolute promise?—Let me put it to you that in 1906, 1907, and 1908, the Secretary of State and his Council and his advisers were all the same persons, and the policy that you see in these different years is the same policy all through.

843. The Secretary of State at last acted very boldly and saved the situation, and made a precedent for future guidance; I admit that. But our discussion is about the strength of the Gold Standard Reserve. You had at that time 23 millions in gold; you say 25 millions is quite sufficient, and yet the Secretary of State was not quite satisfied?—What you say is quite true. At the time that that telegram which you have just read was written, we were on the point of embarking on a course which was really unique, I think, in the financial history of the world; we were a little cautious in the language that we used so as not necessarily to make it a binding precedent for all future generations. Anyone else who was doing so huge and important a piece of business at very short notice would equally, I think, if prudent, have used those qualifying words. To all intents and purposes, as you very kindly said, we did the bold thing, and we did it on a very large scale; so that the history of that period does not indicate that we were hampered by insufficiency of means.

844. The Secretary of State has not guaranteed exchange at 1s. 4d., I think?—No.

845. If the Secretary of State does not guarantee exchange at 1s. 4d. should India not take her own course in making the exchange as permanent as possible, and sacrificing everything to that because the breaking of the exchange means the ruin of India?—As a matter of fact, although one does not want exchange to go down, supposing that the exchange did go down by a few 32nds for a short time, neither the Indian Empire would come to an end nor would Indian merchants be very seriously injured. I do not wish to minimise the importance of maintaining exchange, but I do submit that you should not exaggerate it, you should not speak as though India would be ruined supposing that the exchange were 1s. 3½d. instead of 1s. 3¾d.

846. Do you accept this, that the only currency and the right currency, whether standard or not, should be that by which you can transfer your wealth from one country to the other with only the loss of exchange and the cost of insurance and commission?—We have been trying all these years to build up the Indian currency system so that it may be as you have described.

847. You remember that exchange went down from 1s. 4d. after the closing of the Mint to 1s.?—It was to a little over 1s.

848. Do you know what that meant—reducing our wealth to one half?—Not to one half.

849. By about 25 per cent.—16 to 12?—The value of the rupee went down.

850. If I had my fortune to transmit to this country, if I had taken my money out at 1s. 4d., I should have had to bring it back at 12d., and what had I done to suffer that loss, and yet Lord Morley speaks of things being fairly right; we do not want "fairly," we want it absolute. We want to put the exchange on a basis which the power of the Secretary of State or anybody else could not shake. After the crisis the Government of India have taken the lesson to heart, and that is indicated in the despatch of the Government of India, No. 89, dated 1st April 1909, page 168, in Appendix V. It is just a despatch with which every chamber of commerce and commercial community in India would agree; but that despatch is flouted

by the Secretary of State, and when they asked for 25 millions liquid gold the Secretary of State allows one million, and that not in gold but to be lent on securities. If you do not agree with that statement how would you say the Government of India's recommendation was treated by the Secretary of State?—It was considered with great care and a reasoned reply, and I venture to think a convincing reply, was given to the arguments put forward in it. What was said in this despatch that the Secretary of State sent on 2nd July 1909 (see Appendix V., page 175), has to some extent been modified since; but I do not think there is a word or a sentence in that which the present Secretary of State would not agree with. Also, I notice you mention that the remarks of the Government of India were flouted; I do not think you will find a single sentence there which was not highly courteous and appreciative in its method of expression.

851. Yes, very courteous, but if I ask as an equal co-partner for 25 millions sterling I am treated as less than a clerk if you only allow one million in all, and that not in the way I wanted it. Is that very courteous? Of course, the language can be as courteous as possible, but was that right?—It is very difficult for me to argue these points, and I do not want to take up the time of the Commission in giving my alternative summary of this despatch from the Secretary of State which you rather describe as giving one million when 25 millions were asked for. But I do want to make it clear that I do not accept your summary as being an adequate statement of the contents of this despatch of the 2nd July 1909.

852. Are the Government of India representative of the opinion of India?—Yes. If, however, you are putting this point, that in these matters the Secretary of State is called upon unhesitatingly and without qualification to do anything that the Government of India may put to him, then I say that that is not the constitution of India, and I also say that if he had acted on that principle all through, many serious mistakes would have been committed. I also draw your attention to the fact that at different times the Government of India have held different views on particular matters, and if your view were accepted one year the Secretary of State must do so-and-so because the Government of India wish it, and another year he must do the opposite because the new Government of India does not wish it; that is not the way in which the Empire can be carried on.

853. Does that mean that London and the London financial world is too much represented on the Secretary of State's Council?—I think if I wished, and I say this in the friendliest spirit, I might take exception to that question as being on a matter which is very much outside my sphere; but since you have raised it, it gives me the opportunity of saying that for many years I have had to do with the Finance Committee of this office and with the London financiers who take a certain part in the deliberations of the Finance Committee, and if you mean to convey that there is any difference between the interests which those men attempt to serve and the interests which the Government of India attempt to serve, then you are mistaken. We are all working to the best of our ability to serve the same interests.

854. All the arguments in the correspondence in Appendix V. that you have put in are all "probably" and "fairly," but in a matter of the exchange, where it is the life and death of the country, should not the security be absolute?

855. (Sir Robert Chalmers.) Is not that the whole object of the policy?—The whole object of our policy is to give security of exchange, and at the same time I should add this, not to sacrifice other interests, which are at least as vital, to that particular one.

856. (Sir Shapurji Broacha.) If, for all that, India is willing to lose interest, if her Chambers of Commerce are willing to lose interest, and if they want liquid gold, what does the million and half of ultimate profit matter—they do not want it?—That is really important. The effectiveness of a Gold Standard Reserve depends primarily on its amount. If by a certain course of action you convert a reserve of 16,200,000*l.* into a reserve of

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[Continued.]

18,500,000*l.*, you have to the extent of that 2,300,000*l.* given greater security to exchange. That I think is obvious and elementary, and that is what the Secretary of State has done by this policy of earning interest. It may be right or it may be wrong for a variety of reasons, but it has undoubtedly added to the security of the exchange value of the rupee.

857. If this country were to go on at the same rate of expenditure on the Army and Navy as before the Boer war they would have largely reduced the national debt by this time, or paid it off; is it not that they are spending the vast amount they are for an absolute security and not for a comparative security; and is not this subject that we are dealing with a matter of the same kind and even of greater importance to India?—I do not think we can get very far in this discussion, but I can sum up, I think, the difference between us, and then perhaps we might leave it to the Commission. You would say, as I understand you, that 16,200,000*l.* in gold gives you more security than 18,500,000*l.* in securities, because you would say that although the amount is less the certainty of having that when you want it is more. I should say, and I hope I am right, that 18,500,000*l.* of securities is better than that, because the advantage of the amount is something clear and tangible and the realisability is sufficient for any reasonable need. But whether we are right or wrong, I do not think, if I may put it; that we shall get much further than that; you have put very clearly the difference between us, and I think we might now leave it.

858. No, I am going further. If this were done in the interests of the London market would not the London market be better off by allowing India to accumulate gold here?—There is one thing to which—and you will not mind my saying so, will you?—I always take exception, and I think it is my duty to do so. Whenever it is suggested that the affairs of the India Office and of the Indian Empire are conducted in the interests of the London market, I always venture in respectful language to take exception to it, because it is not only contrary to the fact, but it conveys a very harmful impression.

The witness withdrew.

At the India Office, Whitehall, S.W.

FOURTH DAY.

Friday, June 6, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

LORD FABER.
LORD KILBRACKEN, G.C.B.
SIR ROBERT CHALMERS, K.C.B.
SIR ERNEST CABLE.
SIR SHAPURJI BURJORJI BROACHA?

SIR JAMES BEGGIE.
MR. ROBERT WOODBURN GILLAN, C.S.I.
MR. JOHN MAYNARD KEYNES.
MR. BASIL P. BLACKETT (*Secretary*).

Mr. LIONEL ABRAHAMS, C.B., recalled and further examined.

863. (*Sir Shapurji Broacha.*) Will you refer to paragraph 7 of the letter from the Government of India to the Secretary of State, No. 89, dated 1st April 1909, page 170, in Appendix V? It is there said, "The point is one on which informed public opinion in India is singularly unanimous. We are frequently asked why we strain after interest on the reserve, which is the basis of our currency system, and, consequently, one of the chief pillars of the credit of India; and it is pointed out that other countries are careful to retain the ultimate foundation of their credit in bullion . . .

859. Let us take this gold reserve in another way. Supposing England were engaged in a great war and all the securities had gone down; I do not know whether you will admit or not that if England were engaged in a great war, within a fortnight the Bank of England would have to stop payment of gold?—I have often thought, I may say, of the problems arising out of that. The question what would happen in the event of a suspension of specie payments is a subject that is very familiar to me.

860. How, then, shall we sell either short-dated securities or long-dated securities? Is it not a fact that two millions more of gold in the Bank of England now would have a greater effect on the rate of interest than 50 millions and more of securities? I am dealing with liquid gold and gold in securities, and I am talking of nothing else?—I understand fully up to now the arguments in favour of having metallic gold, but I think you are developing a new argument which I do not follow.

861. If India were allowed to accumulate gold—and India is the only country that could accumulate gold—would it not be the saving of the Empire at the time the Bank of England had no gold left?—My own view is that it is not the business of India to save the Empire. The business of India is to look after its own affairs.

862. Supposing we have 50 millions, then I do not think the Bank of England would be under the necessity of going to France to borrow three millions?—I have the greatest respect for the Bank of England, but it is not our business, unless it happens to coincide with our interests—

(*Sir Shapurji Broacha.*) We are considering our interests, you know. I am a broker of over 49 years' experience, and I could not get an advance on a lakh of rupee paper at one time. We are always spending millions in preparing for war, but those millions are for one day only, and what we are now preparing for is that one day in India when the Secretary of State will not pay our losses; that is certain.

"Moreover, we conceive that the position of the Government of India in the markets of the world would be much stronger as the possessor of a large store of liquid gold than as the possessor of a corresponding capital in consols or similar securities. In the former case, the Indian Government might in an emergency be powerful to help the market; in the latter there would always be the potential danger of their wishing to realise at an inconvenient season." That being an opinion expressed in 1909, the Government of India hold the same opinion still, do they not?—

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[Continued.]

They hold the same opinion as regards the advisability of having a large part of the reserve in gold. Whether they hold all the opinions that are expressed in the passages you have read, I do not know; it is quite possible that the reply of the Secretary of State to this despatch has converted them on some points.

864. (*Lord Faber.*) By "gold," in the reply you have just given, do you mean metallic gold?—Yes; I may say that I always mean metallic gold when I say "gold."

865. (*Sir Shapurji Broacha.*) Do they hold the same opinion about not diverting any of the profits on coinage to public works?—Their opinion has always been in that matter, since 1907, that at a certain time the profits on coinage ought to be used for public works. In 1907, as you will see from the correspondence in Appendix V., they thought that that could be done when the reserve exceeded 20 millions; now the scheme is to do it when the reserve exceeds 25 millions.

866. I am asking whether there has been a change of opinion during the four years since 1909; I am not talking of 1907?—At the present time the Secretary of State and the Government of India are unanimous in holding that, on the whole, the best course is to let the reserve accumulate to 25 millions before any portion of the coinage profits goes to public works.

867. Then the Government of India have not changed their opinion within the last four years?—No. There is just one point to add in order to make that answer quite correct—I am not sure whether 25 millions was the figure that they mentioned in 1909.

868. Lord Faber asked you whether you would not exhaust all the gold if all the rupees in India were tendered. So long as we have a gold standard the Currency Office is not bound to pay gold against rupees, is it?—That is so.

869. Therefore they have to take the rupees to the exchange banks for foreign buyers?—Do you mean that a holder of rupees has to buy gold?

870. If he wants gold he must go to the banks that finance the export trade?—If I follow you rightly, you are on the question whether, if every holder of rupees who wanted gold tried to get it from the Government, the Government would be able to satisfy all demands, is that it?

871. No, the Government has the power to refuse?—Actually the practice of the Government has always been to give gold freely from the Paper Currency Reserve in exchange for rupees, and I interrupted you because I do not wish you to give the impression that the Government holds in reserve a power of economising its gold when occasions for giving it out arise. The Government has not really held that power in reserve.

872. There are more often rupees in India than gold?—Certainly.

873. If all the rupees were presented there is not enough gold to give in return?—Quite so.

874. Against that we are on a gold standard, but have not a gold currency?—Yes.

875. If there was a gold currency, then it is possible that the currency for issue would fail if all the silver were tendered?—Do you mean that if there was a scheme under which the Government undertook to give gold for rupees without limit, then that scheme might break down through a deficiency of the supply of gold? Of course I agree with that—it is obviously correct; but I do wish to repeat what I said in answer to Sir Robert Chalmers, that no one, so far as I know, in the whole history of the world has ever set up a scheme under which such an obligation would be undertaken by the Government.

876. There is no fear of that happening so long as we are on a gold standard and not on a gold currency?—I think that we are at one. I will not dwell on a point of language, but I think that what you mean commands my humble concurrence.

877. (*Sir James Begbie.*) The gold standard reserve is peculiar, is it not, to the Indian currency system?—Not quite. I think you will find that some of the eastern colonies, certainly the Straits Settlements, have a gold standard reserve, in a small way. I think the Philippines have one. In addition I know,

because I was a member of the Committee that helped to establish it, that in a very humble way West Africa has a similar reserve.

878. I was speaking more of the old gold standard countries in the world; none of them have it, have they?—No; in fact the gold standard countries in the older sense of the word scarcely have such a reserve, except so far as the reserve of the Bank of England is in a sense a gold standard reserve.

879. That is different to the gold standard reserve in India, which is accumulated from the profits on the coinage?—Yes, as regards its origin it is entirely different. I meant as regards the purpose that it serves, that is to say, maintaining a stable exchange with other countries, there are points of resemblance.

880. Do you think the Committee of 1898 anticipated there would be a coinage of rupees on the scale that has taken place when they recommended a special reserve of this sort?—I do not think that one can answer that question, and I may put to you the difficulties. On the one hand it is quite clear that they did contemplate coinage in the future, because they provided what should be done with the profits of such coinage; but as far as I can gather, they probably thought there would be less rupee coinage than has actually taken place, because they expected the gold would go into the currency rather more freely. I give that merely as an opinion, and I can quite understand that others who were present at the meetings of the Committee, or who read the report, may take a different view.

881. As a matter of principle, do you think it advisable to have a token coinage on such a vast scale as in the case of India?—No. I think that if the proportion of the token coinage to the gold currency gradually falls it would be a good thing. But I should like to say—and this is equally important to my mind—that I think it would be a very evil thing that the Government should take steps to divert the feelings of India with regard to the currency metal that they prefer into any other direction than what they would naturally take.

882. But you would not object to them encouraging the use of gold?—I do not like to be too much of an optimist, but I think at the present time they do exactly the right thing. They practically allow anyone to choose the metal that he prefers, subject only to this, that at certain times they cannot give gold when, owing to adverse circumstances, the stock in the Reserves runs down. Except on those special occasions they allow everyone a free choice, and I think that is the right policy.

883. I think you said yesterday you would not undertake the legal obligation to pay gold for rupees?—That is so.

884. There is no such obligation?—No.

885. Is that not a reason for encouraging the use of gold coins, and also restricting as far as possible the issue of fresh rupees?—No doubt you have read through these various papers. The policy that has been pursued consistently has been not to coin rupees beyond the amount that is necessary; when I say "pursued" I mean what has been recognised as the ideal policy. In the early years of this system, in 1900, as you know, that was carried to a very unfortunate extent. You have read the history of how the Currency Office at Calcutta had to close before the right time because there were not enough rupees. Since then there has been one occasion when it may fairly be held that there was an excessive coinage of rupees, in 1907, and in order to prevent anything of the kind recurring, a better scheme, and a more economical scheme of coinage has been laid down and is now followed.

886. Do you refer to the Secretary of State's despatch of 18th February 1910, No. 25, in Appendix V. (page 185)?—Yes.

887. Am I correct in understanding that the profits on silver coinage are usually coined into rupees?—I think that is inevitable really. You buy so much silver and you coin it into rupees; then you find that a certain portion of it represents the equivalent at 1s. 4d. per rupee of the amount spent on purchasing the

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silver, and then there is so much left over, and that is the profit.

888. And that is coined into rupees?—Yes.

889. If you coin the profits into rupees do you get any profit on that coinage?—No. Let me put an extremely simple case: You buy 100*l.* worth of silver; if you are making no profit that silver would coin simply into 1,500 rupees, but you find actually that it coins, say, into 2,500 rupees—I am giving an illustrative figure merely. That extra 1,000 rupees is the profit; and having been once realised it does not yield a further profit at compound interest, as it were. That is a profit that has once been realised. Then the only question which arises is in what form are you going to keep it.

890. It seems to me that if you coin the profits into rupees in this way you are not collecting all the profits on the coinage which you ought to get. Let me give you an illustration: supposing a million sterling, we will say, passes into India in sovereigns and is presented at the Currency Department: you pay out in exchange for those sovereigns a crore and a half of rupees, so that all that you have to do in order to replace the rupees is to buy enough silver to coin a crore and a half, is that not so?—Yes.

891. The difference between the cost of the silver to produce that number of rupees and the gold received is the profit?—There are two ways in which one can regard it, and I do not think there is anything really between us. I began with the assumption that you spend a given sum, say, 1,000,000*l.*, on buying silver, out of which you get, first of all, the crore and a half, which represents the million, and then, say, another 75 lakhs, or whatever it may be, and then I said the 75 lakhs is the profit. I think that you differed from me in this way, that supposing all one wants to get is 150 lakhs net, then your way of putting it would be to spend not 1,000,000*l.* on buying silver, but 700,000*l.* and then you would get your 150 lakhs, out of which, say, 300,000*l.* worth, 45 lakhs—of course I am making up the figures as I go along—would represent the profit. Although they look a little different at first, in essentials our two methods, I think, are the same, except that they deal with different quantities.

892. My point is that when you coin that difference between the cost of the silver and the crore and a half of rupees, the reserve does not get all the profits that it ought to get?—According to what seems to me the simplest way of looking at it, the coinage itself is a purely mechanical operation. When you have completed your coinage and coined the right number of rupees, then you make up your accounts and see that so much represents the cost price of the silver that was used, and so much extra you hold in rupees, and that represents profit.

893. Take it another way round. In the case of a million sterling going into India do you use the whole of that million to buy silver with?—No, I think, if I may say so, that that is where a little difficulty arises in the way of our completely understanding one another. You do not say: I have had a million sterling tendered to me and I will use that in order to buy silver. What the Government says is: Our stock of rupees has gone down to a certain level which is not a safe level, because it does not provide us with enough rupees to make sure of the convertibility of our currency notes. Therefore, from time to time the Government increases its stock of rupees by the purchase of silver. But whether it buys silver at any time, and how much it buys, does not depend on such operations as you have mentioned as, for example, the tender of a million sovereigns in exchange for rupees; that is some time previously to the coinage.

894. Will you kindly take my point of view and tell me this: If you do use the whole of the million sterling to buy silver, you coin that silver into 2½ crores of rupees, roughly?—Yes.

895. Then you get the same profit on the whole operation, do you not?—I should say—and I think that this is the only method by which one can consider it without a possibility of error, that you take your 250 lakhs, consider how much of it represents

the equivalent of cost price, and how much is surplusage, and that surplusage is the profit.

896. And that profit goes into the reserve to be held against the total amount coined by that sum, so that the reserve gets, we will say, 300,000*l.* profit, which you hold against the coinage of the 2½ crores?—No, I do not think you are right there. Taking the figures that you have taken, 100 lakhs out of the 250 go into the reserve. You mentioned the figure of 300,000*l.*; I do not know if you meant it. The amount that goes into the reserve is the equivalent, on the illustrative figures that you took, of nearly 700,000*l.*; perhaps that is where we have been at cross-purposes.

897. I do not think so. The cost of the silver to replace the million sterling in silver rupees is about 700,000*l.*, so that you get the difference between 700,000*l.* and 1,000,000*l.* to go to the reserve, which is 300,000*l.*?—That is on the supposition that you spend 700,000*l.* only.

898. Yes; so that the reserve then holds 300,000*l.*, not against the crore and a half, but against 2½ crores of rupees?—I still think that we are at cross-purposes through taking different figures. When you speak of that 2½ crores of rupees it all follows on the assumption that the 1,000,000*l.* has been spent to buy silver. I gave an alternative assumption at one stage that 700,000*l.* had been spent, but if you assume that the million has been spent and that it produces 2½ crores of rupees, then the result is that 150 lakhs, the crore and a half, is treated as the equivalent of the gold or sterling money that was spent, and then the remaining 100 lakhs is the profit, and of course, as you know, that at the usual rate of conversion comes to nearly 700,000*l.* I think, if I may so put it, because I am sure one does not want to dwell too long on an intricate point, I may say that our gold standard reserve gets every rupee that can possibly go into it with one exception which I will mention to you, if you care to have it—I do not know if you are interested.

899. I only want the general principle?—The only thing in which, perhaps, we have not treated that reserve as generously as we might is that when bills on London were sold by the Government of India, the Government of India only put in 15 rupees for each £ that the Secretary of State disbursed, whereas they ought to have put in on some views 15 rupees and a fraction because of bills having been sold at 1*s.* 3½*d.* Apart from that, the reserve gets every anna that can possibly be given to it.

900. Do you not think it is a disadvantage of a system of coining profits into rupees that the currency is unnecessarily diluted with token coins?—No. As regards the preamble of your question, I do not see how you can avoid, as you say, coining profits into rupees. You cannot coin a single rupee without making a profit on it. It is incidental to the whole system that if you coin one rupee a year, about five annas would have to go into the gold standard reserve. That I merely say in passing. On the question of diluting the coinage unduly, I venture to disagree with you rather strongly. In principle we are at one, that is to say, we recognise that it would be a most serious danger if a coinage of rupees took place beyond what is necessary. I think every reasonable precaution is now taken to keep down the coinage to what is absolutely required. If at any time anyone suggested to the Secretary of State a further precaution against over-coinage, and it was a reasonable suggestion, I am sure he would welcome it, as our object has been all through to limit the rupee coinage as much as necessary.

901. In paragraph 7 of Appendix III. you suggest on page 89 that "it will be an excess of caution to hold in gold in England more than 5 millions; more especially if, as I hope will be the case, the present practice of holding a portion of the paper currency reserve in gold in England is continued." Your idea is, I think, to use the gold for the support of exchange?—Yes.

902. You are, of course, aware that the reserves of the paper currency are governed in India by statute?—Yes.

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903. Is there any statute providing that the reserve is to be used for any other purpose than to redeem notes?—I cannot point to a particular section of the statute which provides that it should be used for any other purpose; but the whole scheme of the statute is one which allows gold to be held, and to be held in England, obviously with the intention that at certain times the Government of India may substitute rupees in India for gold in England, so as to give the reserve a utility beyond its primary purpose of redeeming notes. I should like to add there, on a point of principle, that when one is dealing with such huge sums as are in the paper currency reserve, sums which amount, if you include securities, at the present time to over 40 millions sterling, it would be a great mistake to take the narrowest possible view and to say that you shall not use this great sum for any of the purposes that it can serve in addition to that of securing the convertibility of the notes. If one did take that narrower view one would, I think, be departing from the practice of most or many of the most financially progressive nations. I believe that Japan and the German Government, and other Governments whose practice deserves a great respect and consideration, do somewhat enlarge the use that is made of the paper currency reserve.

904. Does the Indian statute, that is, the Paper Currency Act, bind the Secretary of State, who holds the London portion of the reserve? Is he subject to the provisions of that statute at all; is he obliged to carry them out?—That is rather an interesting constitutional point. I do not think there is very much substance in it, and I will tell you why. The Secretary of State in theory might act as though the statute did not exist—that is your first point, which I agree to; but if he did so, and if the gold disappeared from the paper currency reserve, then it would be obligatory on the Government of India, who are bound by the statute, to make good the reserve in some other form. The Government of India have to hold so much, x rupees minus any amount the Secretary of State holds, and if that minus comes to be nought, then the Government of India have to hold the full x .

905. As a matter of fact the London portion is not subject to any statute, is it?—I agree with that, but, at the same time, I am anxious not to let it appear to be a more important fact than it is.

906. Is it not possible that the fact that it is declared to be held in England in support of exchange may be misunderstood in India?—Would you say in what way it would be misunderstood?

907. For example, you say that you hold the reserve here to support exchange; in India it is held for the redemption of the note, and people might begin to talk and say, Here is so much gold held outside of India for a different purpose to what it is held in India. Might that not affect the credit of the note issue?—I think actually the time has come when—it will no doubt be done when this Commission issues its report—a rather fuller statement is desirable for the instruction of the public in India as to the way these various reserves are managed. I imagine, if I may say so without presumption, that one of the advantages of the Report of this Royal Commission is that it will probably contain the desired information, and contain it as coming from the best possible source. Until that is issued I agree that there may be some misunderstanding.

908. In paragraph 8 of Appendix III., page 89, one of the reasons you give for the opinion that there is, *prima facie*, an overwhelming balance of advantage in holding in London the main part of the reserve is that payments of trade balances due by India to other countries have to be made in London; so far as this reserve is concerned, remitters would have no option, would they, but to settle through London?—No. Of course they have the advantage of buying a bill on London, and then they have the usual method of buying from London a bill on Berlin or Hamburg, or whatever they wanted.

909. Quite so, but there is no option to the people in India to settle the trade balance with any other

countries than through London?—I think that is correct.

910. If the reserve was held in India, and gold was issued in place of bills on London, the remitters would not be obliged to settle the trade balance with other countries through London, would they?—Do you think that is so? Supposing a remitter was anxious to send 50,000 sovereigns from India on the assumption, which you are evidently taking, that he would get the sovereigns in India from the gold standard reserve, I should say the probability is that he would send his sovereigns by the P. & O., and would have them either transhipped to the ultimate foreign destination, or would buy in London with the sovereigns a bill payable at the city where the debt has to be paid. I think that is the ordinary course of business having regard to the fact that London is the financial centre of the world.

911. Still, you might have gold going from India to Austria or to France?—Yes; you might have a very slight advantage in that way. I do not wish to be obstinate, but I do not think that there is very much substance in that advantage.

912. It is a great advantage, is it not, to have a currency system that works automatically?—Yes, as far as any currency system can work automatically; and I may say that the Indian is as automatic really as any currency system.

913. You say it is?—Yes, I think it is. Certainly the object of all the changes that have been made in the development of the Indian currency system has been to make it as automatic as possible.

914. Take the case of 1908–9, when you had a very large accumulation of rupees in the gold standard of India; these rupees were drawn upon in London by means of council bills, were they not?—Yes.

915. I think you began to draw council bills at a very low rate of exchange?—You know the limit; $1s. 3\frac{2}{3}d.$ is the lowest.

916. I am talking about bills drawn in London on India?—Yes, and I say $1s. 3\frac{2}{3}d.$ is the lowest rate at which the Secretary of State ever sells his bills on India. I think I mentioned that at an earlier stage.

917. In this case you began to draw under $1s. 4d.$, but you cannot give us the exact figures?—That is quite right.

918. Do you consider that that was more automatic than if gold had been allowed to go into India?—I do not think that there is any difference as regards the automatic working of the system. Certainly I do not think that the rate makes a difference. Supposing that the gold had gone to India and rupees had been issued in exchange, that would, in a certain sense, have been an artificial transaction, the Government undertaking to give rupees from a certain stock that it has in exchange for another form of legal tender money. Up to a point that is artificial, but which is no more artificial than the things that have to happen, say, in a full gold standard country. Then you suggest, as I understand, that the fact that the bill was sold, say, at $1s. 3\frac{2}{3}d.$ instead of $1s. 4\frac{1}{8}d.$ per rupee adds a new element of artificiality; that I do not follow.

919. In the case of gold, gold would not go to India, I take it, unless at cost price, which would be something over par?—Of course you can never tell. When gold is on its way from Australia to London it sometimes is diverted to India at a very low price to the owner.

920. That makes it artificial, does it not?—What I was putting to you is that what is from some points of view regarded as a most natural arrangement is in itself artificial up to a point. I am assuming that gold belonging, say, to the National Bank of India, which is on its way from Australia to London, is, owing to circumstances, delivered at Bombay and exchanged for rupees. The point I am putting, and it is a very simple point, is that that is about as much or as little an artificial transaction as the selling of bills by the Secretary of State to liberate rupees.

921. Still, do you not think that the sale of council bills at a low rate competes with gold?—It does to some extent; but then you must remember that the primary object, though not the sole object, of selling council bills is to enable the Secretary of State to

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bring home from India his revenue requirements for the year. At a certain period of each year he is dominated by that; and it is then quite properly not his object to stimulate gold to go to India at the possible expense of his having a shortage in his drawings. Of course you, being so familiar with Indian finance, know the conditions are very different, say, in April, May, or June, from what they are in December or January.

922. I quite agree. In the case of the Secretary of State drawing to lay down funds for his own treasury what you say is quite correct, but the case before us is the case where the Secretary of State drew bills in London against the gold standard reserve in India, and he began to do so at very low rates of exchange. The point I wish to bring out is whether in doing so he did not prevent gold from going to India and was thus competing with gold, because, if so, then it was not automatic?—I am going first, if you will allow me, to draw your attention to some matters of fact. You speak in very general terms about drawing bills against the gold standard reserve at a low rate of exchange.

923. He began to do it, but he did not continue it?—That is so. I was rather anxious to put in this. The greater part of the bills drawn to restore the gold standard reserve in London after that crisis were drawn in the year 1909-10, when the average rate of exchange, according to these figures* of Mr. Newmarch which I have before me, was 1s. 4-041d.; but a certain amount, the early bills to which you refer, were certainly drawn in 1908-9, when the rate of exchange was 1s. 3-931d.

924. That was the average rate?—Yes.

925. So there must have been sales below that rate?—Yes. I will not do the arithmetic in my head, but the average rate is obviously something between 1s. 3½d., which is the lowest price, and the highest price, whatever it was. In both halves of 1908-9 the average rate was much the same; in the first half it was 1s. 3-930d., and in the other half of the year 1s. 3-938d.

926. Do you not think that those sales of council bills at those rates not only caused a loss of premium on the bills sold, but also a loss in the rate at which bills were sold to effect the ordinary remittances?—I am not quite sure that I followed the first half of your question. I think the first half of your question was to this effect—that by selling a little under 1s. 4d. the Secretary of State did worse than if he had received gold in India for the gold standard reserve.

927. That is not my point. He was anxious to get the gold for the standard reserve, but instead of allowing the gold to go into India he began to sell at those low rates, and therefore he lost the premium on the sales which he might have obtained by waiting; is that not so?—Yes; on the other hand, either he or other interests in India would have incurred a loss if he had reduced the sales, and then the gold standard reserve had been replenished first of all by the transmission of gold to India at a considerable cost, as you know, for freight and so on, with the ultimate result that when it has to be used in order to strengthen the exchange the gold would again have to be shipped from India to London, or to Berlin, or to Trieste, at a further wasteful expense of money. If one is considering the economy or otherwise of any of these transactions which involve the sale of council bills or the shipment of gold, one has to consider the effects in a very wide circle, because one effect leads up to another effect.

928. Still taking 1909-10, when council bills for about nine millions were sold against the gold standard reserve, do you not think that the fact that such a large amount of council bills were sold prevented a greater premium being obtained on the ordinary bills against the Treasury balances?—It may have had a very slight effect, but the great cause which keeps down the price in a year of heavy demand like 1909-10 is what I may summarise as cheap gold going from Australia. I need not enlarge upon that; I think you are familiar with the fact that gold goes from Australia very cheaply at times. If it is worth delaying you—

929. I do not think we need go into it further?—I was only anxious to mention how much gold actually did go to India in competition with council bills in 1909-10. It does bear somewhat considerably, I think, on your suggestion that the large sale of council bills was the cause of the premium not being as high as it might have been.

930. You have told us that the use of council bills for effecting remittances to India saves the loss (in the shape of payments for freight and insurance and loss of premium on council bills) which would be incurred if the remittances were made by shipments of gold; that statement, I suppose, applies to council bills drawn on the gold standard reserve?—Yes.

931. Is it not the case that the present system, as a whole, in the absence of a gold currency, really increases the freight and insurance charges on the movements of specie in connection with the currency? When you save the cost of remitting the gold from India by drawing council bills, the cost of remitting silver to take the place of gold is incurred, is it not?—That I would most strongly contest, because it rests on the assumption that if the Government acted rather differently from the way in which it does act, the people in India would use less silver. That, I think, is opposed to all the probabilities and all the known facts.

932. I think you misunderstand me, that is not my point; my point is that the present system really incurs a greater expense in the way of freight and insurance than a gold currency would?—But the greater expense, I understand, arises from the fact that silver has to go to India.

933. Yes?—Supposing we had a gold currency, one has to consider whether less silver would be used in India, and in order to consider it one has to put a very definite meaning on the words. "If one had a gold currency." Actually I should say that we have a gold currency at present, only the people of India, for a number of reasons, do not use it very freely. There is no one in India who has 15 rupees, who, if he desires a sovereign, cannot get it.

934. That is not quite what I am trying to get at?—I am anxious, if I may, to dwell on this point: the people who discuss this question often put the query, why does not the Government give India a gold currency? I am anxious to say that in my humble judgment, that is, I will not say, a meaningless question, but I think it comes very near to being a meaningless question because the Legislature has declared gold to be a legal tender. The Government gives all the encouragement that it can to put into circulation such gold as it possesses, and therefore up to the requirements of the people of India there is a gold currency, and the obstacle to gold being more used as currency is not that the Government of India fails to encourage it, but that the people of India prefer other forms.

935. When council bills are drawn on account of the gold standard reserve, and they are drawn at a premium, does the premium go to that reserve, or how?—It does not. I mentioned to you before that that is one thing of which the gold standard reserve, if it had a voice, might complain. The practice is, as I explained to you the other day, not to draw a specific bill against the gold standard reserve, but to appropriate to the gold standard reserve so much, which will probably be in round hundreds of thousands of pounds, from the total proceeds of council bills. Then the Government of India take out of the gold standard reserve rupees equal to 15 times the amount of sovereigns. If anyone urged that they ought to take not 15 times but a rather different amount, then I have nothing to say against it, but I do not think it is an important matter.

936. The importance, I think, is in the fact that you put it down here as a reason for the location of the reserve in London that freight and insurance charges are saved?—I would remind you that if you save the premium you have saved it, whether it goes to the gold standard reserve so as to be held up in that reserve, or whether it goes to the general taxpayer so as to reduce the burdens on him. It is always a good

* See Appendix VII., page 232.

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thing to save it, into whichever pocket the taxpayer puts it.

937. Am I to understand that the profit of the premium goes to the general taxpayer where there is a premium?—I believe so. Mr. Gillan will perhaps say whether that is his recollection, but my recollection is that all these adjustments as between England and India with respect to a gold standard reserve are effected at the rate of 1s. 4d. and not at 1s. 4d. plus or minus a fraction.

938. (Mr. Gillan.) It goes into the profit on exchange?—That is my recollection, that it goes into profit on exchange, which is a head of the general revenue.

939. (Sir James Begbie.) Taking it the other way about, if the bills are drawn in India on London at a discount, how would that work out?—It sounds very greedy to say so, but there is a profit either way. When bills are drawn by the Government of India, instead of taking from the public 15 rupees for each sovereign that is to be given out, they take 15.1 rupees, or whatever the fraction is, and then I am afraid the Government of India put that 0.1 rupee under the head Mr. Gillan was just mentioning, and use it for the advantage of the general taxpayer. I imagine that both the Secretary of State and the Government of India attach no very great importance to that, and if anyone thought it ought to be dealt with differently I do not think any obstacle would be raised. I remember, I may say, that years ago, when I was Financial Secretary here, I thought of raising the question, and my only reason for not doing it was that I was busy with much more important things, and I thought we might leave the Government of India uncriticised in that matter.

940. The reason frequently given for selling council bills is that it is in the interests of India to prevent the withdrawals of gold from London?—That is a reason, but a minor reason.

941. Is it not a serious disadvantage to India to be in the position which occurred in 1908, namely, to be obliged to borrow and at the same time to sell securities belonging to the gold standard reserve on a very large scale?—Of course there is a disadvantage in that, but if one were considering the matter fully, one would compare it with the advantages that this system possesses and also with the disadvantages that would arise from any other alternative system. So far as your remark goes, I agree with it that to have to sell securities when you are borrowing is a bad thing.

942. An objection which you have indicated in paragraph 9 (C) of Appendix III. (page 89) to the reserve being held in India is that when the gold came to be shipped to London a delay of about three weeks would occur?—That is so.

943. In 1908, when the reserves were largely drawn upon, were the drawings in the form of bills?—They were in the form of bills.

944. And only bills?—Yes. The question whether transfers would not be a better form is, I might say, a very reasonable question, and it is worth mentioning here, I think, that this sale of bills in 1908 was the first of its kind. Although the India Office, I think, has some reason to be pleased with the general results of what was done it is not so foolish as to think that it reached perfection at once, and no doubt on any future occasion some things might be done differently and better.

945. At any rate the difference in time between bills and shipments of gold would be about a week only?—That is all.

946. Do you think if the reserve were held in India there would be risk of the gold being used otherwise than to support exchange?—I think that there is a risk, but whether it is a great risk I do not know, and you probably are in a much better position to form an opinion. It seems to me that if the Government issued very large sums in sovereigns on the understanding that they were to be shipped, it would be very difficult for it to set up a kind of detective agency to make sure that the shipments did take place.

947. You do not think the difficulty would be insuperable, do you?—That is a practical question on which your opinion is worth much more than mine.

948. When was the practice of issuing gold to the public in exchange for rupees instituted?—I think it was done as soon as the Government of India began to have gold in 1900, in fact I dare say you remember there was some criticism based on the view that Sir Clinton Dawkins was over-anxious to issue gold and rather forced gold on the public. I think a little less vigour was displayed after 1900, but in essentials the practice has continued from when the Government of India first received gold.

949. Have any regulations been laid down for carrying it into operation?—I think there are orders in the most general terms to officers in charge of currency centres that they are habitually to give gold to the public in exchange for rupees when the public desires. Then, on one occasion at least, as you know, in 1907 or 1908 the operation of these orders was partly suspended under a scheme which the Secretary of State thought over-cautious. Subject to that suspension in 1907, I think the whole thing is governed by a very few sentences.

950. It is a rather important point when the rupee reserves are very high, is it not? Would you issue gold to the public when your reserves were laden with rupees?—I think that if the conditions of trade were good and there was no immediate prospect of a fall in exchange, the right policy would probably be to issue gold to the public freely, even when there was not much gold left; because when you are speaking of the reserves being very full of rupees you imply that there is not much gold in them at such a time. Even at such a time my feeling would be in favour of letting the gold go freely unless there were special reasons for holding it up.

951. I thought that you rather complained about the way the gold went out in India in 1907-8?—No, I do not complain. My view—I do not know if other people hold it—is that we have two gold reserves which serve two different purposes. I am very anxious that the difference between those two purposes should be recognised, and that the gold standard reserve should not be used for the same purpose as the paper currency reserve of gold, that is to say, that it should not be dissipated in good times. Subject to that, it seems to me a reasonable thing that the gold from the paper currency reserve should go out as it did in 1907-8, only in my memorandum I have said that the sudden efflux of gold was probably not a support of exchange. I merely made that remark as I wished the fact to be noticed.

952. You say you can give reasons, if necessary, to show that if sovereigns are to be issued at a time of an unfavourable trade balance for the purpose of preventing exchange from falling below the gold export point, the rate at which they ought to be issued must be at the established rate of 15 to 1?—Yes.

953. It would be very useful if we could have those reasons submitted?—They are exceedingly simple. You may assume that there is a certain fixed cost of sending home gold from India to England; you can call that $\frac{1}{4}$ d. per rupee, but of course one knows that it is rather doubtful. If a bank applied to the Government of India for gold and got it at 1s. 4d., and then sent the gold home, the effective rate of exchange from the point of view of that bank would be 1s. 4d. minus $\frac{1}{4}$ d., that is to say, 1s. 3 $\frac{3}{4}$ d., and so long as you kept the exchange at that rate or above it, you would have maintained the exchange. Supposing that instead of doing that the Government of India issued its gold, say, at the price of 1s. 3 $\frac{3}{4}$ d.—one can take that figure—and then the bank had to send the gold home and still pay this $\frac{1}{4}$ d. for expenses; then, from the point of view of the bank, the effective rate of exchange would be 1s. 3 $\frac{3}{4}$ d. minus $\frac{1}{4}$ d., that is to say, 1s. 3 $\frac{1}{2}$ d. By instituting this different rate of 1s. 3 $\frac{3}{4}$ d. the Government of India would simply have failed to support exchange; they would have put exchange down on the figures that I have given you to 1s. 3 $\frac{1}{2}$ d., and the only way they can keep it within the gold points is in the way that I have mentioned. I hope that that is clear to you?

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[Continued.]

954. Quite. Does not that same argument hold good the reverse way about? When you issue rupees in India, if you issue rupees in India below the equivalent of 1s. 4d., then you destroy the standard, do you not?—No. My view, which I tried to develop very briefly in answer to a question of Sir Ernest Cable, is that you keep up your standard when you keep the exchange within what they call the gold points. What I was putting to you was that if you let the exchange fall below the exporting gold point, then you have failed to maintain exchange. I hold with equal firmness that if you keep it within the gold exporting point, then you have not failed to maintain exchange. I think I may say that economists generally, who deal with this sort of subject hold the same view as far as I know.

955. Regarding the amount in reserve you said that the statistics of 1907–8 illustrate the effects of as severe a period of adversity as it is reasonable to expect?—I think so. I know that is a very large proposition, but I put it forward with very fair confidence.

956. Have you taken into account the great advance made since that year in the import trade?—I quite agree with you that if 25 millions, which is the figure that has been mentioned, was suitable in 1908, and only just enough, then the gold standard reserve ought gradually to increase; and in any scheme which I have put forward provision has been made for such a gradual increase.

957. Yes, but you put considerable emphasis on the statistics of 1907–8?—I merely wish to use them, not as showing the final amount that the gold standard reserve ought to be allowed to reach, but as a basis for reasoned discussion on the subject, because I feel very much that there has been a vast amount of discussion on the subject on the basis of mere guesswork.

958. I would like to ask you also if you have taken into account the fact that people in India are now being attracted by investments in Europe?—Do you mean that there would be exports of capital for that particular purpose?

959. Yes?—I must confess that that is a point which has not occurred to me. In any case, I would maintain that you should take the standard of 1907–8 as your basis; then you can make such additions as changes, either in the import trade or in the habits of investors, and so on, necessitate.

960. Do you recognise that with the growing wealth of India and the vast additions to the currency which have taken place in recent years, the tendency of interest and discount rates has been in a downward direction?—Yes.

961. And that if that prosperity continues, the rates of interest must inevitably cheapen still further?—Yes.

962. With the possible result that a strong demand may arise for further investments in England and elsewhere?—I recognise that you do not put that in any controversial way.

963. Certainly not?—Therefore I need not be so guarded in my answer. I am not sure at the moment that a great demand for sterling investments is likely to occur at a period of bad exchange.

964. It might precede it?—Yes.

965. Or it might follow it?—Yes. I should have thought, generally, that investments would go on, subject to conditions which would not be very much affected by a period of bad trade, or of unfavourable exchange, except that bad trade would, so far as it had any effect, rather check foreign investments by Indian holders.

966. Such investments, if made, would act on the exchange, would they not?—Yes.

967. Have you considered this point—that the high prices of commodities exported have had an important effect on the favourable balance of trade?—No doubt.

968. And through that balance on the additions to the currency?—That is so.

969. May it not be that the great additions to the currency necessary to the conduct of trade in consequence of high prices may be found to be superfluous when a cycle of low prices is experienced?—Yes. I think it is very desirable that India should be able to

contract its currency when prices fall, or when, for any other reason, the currency becomes redundant. I think you will remember that certainly from 1898, and I think from an earlier period, the principle has always been recognised that the great advantage of our currency system that we have set up is that it does enable such a contraction of the currency to be effected.

970. You have based your estimates with regard to the reserve on the events of 1907–8; is it altogether safe to rely on those estimates in view of all these different developments that I have mentioned to you?—No. As I have said to you already, I should take the experience of that period as a very valuable foundation, and then work out, so far as one can, what allowance has to be made for changed conditions; but I would not, as so many writers on the subject in India have done, disregard the one solid and valuable piece of experience that we do possess.

971. But you look forward to a time when the profits on coinage or a portion of them will be available for capital expenditure on railways?—A portion of them I should say.

972. Would there not be a danger of coinage being then undertaken for the sake of the profits that would be available for such expenditure without regard to the purely currency position?—No, I do not think so. I think the Government of India are so conscious of their enormous responsibilities in respect of the currency, that they would never be so foolish as to coin beyond what seemed to be required, because if they did so, sooner or later they would have to pay the retribution, and might have to pay it in a very unpleasant form.

973. I understood you to say yesterday that, when you remarked that you would be able to show how the purchase of silver is regulated, you had in view the arrangements laid down by the Secretary of State in his despatch of 18th February 1910, Appendix V., page 185?—Yes.

974. So far as I understand the position, there is nothing provided there as to the method by which the desired stock of rupees on a given date is to be obtained. Is it the case that when silver coinage has to be undertaken it is carried out either by buying silver with gold taken from the paper currency reserve or by selling council bills?—There are various ways of paying for silver. The simplest way is to pay from the India Office balances, whatever they may happen to be. That was adopted, as I dare say you know, in 1912 when we began with very large balances. We bought seven million pounds' worth of silver, and we very naturally used a part of our large balances to pay for the silver. We then sent it to India where it was placed for the most part in the paper currency reserve, and notes were issued to the Government of India against it. That was really a transfer of balances from England to India. That, I should say, is the normal method of paying for silver. When the Secretary of State's balances are not so high, there are other methods that might be adopted. One, which I thought very clumsy, which was adopted years ago, was to have boxes of sovereigns sent home from India to England. Another method which now takes its place is to withdraw from the paper currency chest in India the amount required to pay for silver against replenishments of the paper currency reserve in other forms. Those, I think, you may take to be the two methods—either payment from general balances or from the paper currency reserve.

975. When you take gold from the paper currency reserve to buy silver in order to coin rupees, that is not an addition to the total currency, is it?—No.

976. You simply substitute the silver for the gold that you take out?—That is quite right.

977. Therefore there is no addition to the currency?—That is so.

978. But when you utilise council bills to get money to buy silver and you buy silver with the money and coin it, that is an addition to the total currency, is it not?—It is an addition in the first place to the balances held by the Government of India.

979. In London?—No, in India. Just let me go through this; I did it before, but it is very important.

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[Continued.]

The Secretary of State has so much money in London which he has drawn from India; then he spends a certain sum of it and sends out silver to the Government of India, which they coin and put into the paper currency reserve. Then against it the Head Commissioner of Paper Currency issues notes to the Government of India so that the gross circulation of notes is for the time increased, but the extra notes are held by the Government, and it is a matter of experience whether those notes or the rupees against them go into circulation, or whether they are held up in the Government reserve. So far as they are held up, as they may be and as they were on the 31st March 1913, in the Government reserves, they certainly do not affect the active circulation.

980. I am afraid I do not follow that. We are talking about council bills being drawn in London for the purpose of buying silver for coinage purposes. Last year, for example, you drew council bills against the paper currency reserve, I understand, for the purpose of getting money to buy silver with?—I am always anxious not to overstate differences of detail, and not to delay you over such matters, but perhaps I was wrong in not questioning the opening words of your question. One did not sell council bills in order to produce so much money and to buy silver with the money so produced. The Secretary of State sells council bills so many per week according to trade requirements and according to his own estimated requirements, and so on; but he conducts what one may call general sales, not sales for specific objects. So that it is more correct to say, as I put it, that if the silver for the extra rupees is not bought with gold taken from the paper currency reserve, then it is bought from the Secretary of State's general balances. I put it that way, which is, if I may say so, the most correct way. You put it slightly differently as though council bills were sold to produce the money. I thought the difference between us was so small that it was not worth correcting; but perhaps it is more important than I realised.

981. (*Mr. Keynes.*) Will you put it this way—that when more silver is coined against council bills, the Government of India's capacity to cash council bills is increased, and when they take advantage of that capacity then the circulation of rupees is increased?—Yes, that is perfectly correct, but whether it entirely answers Sir James Begbie's question I do not know. I preferred, because I thought it helped Sir James more, to put it in this way—in a negative form. Supposing at a certain time the Secretary of State has increased the gross circulation of currency notes by sending out silver in the way I describe, and if then there is no demand for the money represented by the additional notes held by the Government of India, then what has been increased is not the active circulation, but only what you may call the stagnant part of the circulation.

982. (*Sir James Begbie.*) The total currency, whether in reserves or in actual circulation, has been increased?—Yes. I am anxious to insist on this, that when there is no actual public demand for the extra rupees or the notes issued against them, then it is the stagnant part of the circulation, that is to say, the amount in the reserve treasuries and so on, that is increased, so there is no danger of what is popularly called inflation.

983. But the total currency is increased, whether in reserves or in actual circulation?—Yes, it is.

984. Take the case of last year; I allude to the time before the decision was come to to buy silver. Immediately before that time very large amounts of gold were held in India?—Yes.

985. The currency reserves were overflowing with gold coins?—Yes.

986. And the silver reserves had fallen?—Yes.

987. Then came this decision to add to the coinage; why was the decision made to add to the coinage instead of substituting silver for part of the gold held?—Where could you have got the silver from?

988. You could have used the gold you had to buy the silver?—I can assure you that that is not so. At the time of active demand for currency, what happens

to the unfortunate Government of India is that the bankers rush into the currency offices and other offices with enormous amounts in sovereigns and say: "In accordance with the notifications issued on the recommendation of the Herschell Committee we demand that for every sovereign you shall give us 15 rupees." The Government of India—and I have heard that other Governments with similar currency systems have the same trouble—is very hard pressed sometimes to provide enough rupees for the public, in response to its insistent demand for rupees against gold. If at a time like that you say, Why did not the Government give out its gold and get in rupees from the public, the answer is that the public wants exactly the opposite thing done; the public clamours for rupees and forces gold on the Government.

989. As I understand the position, at the early part of last year the rupee reserves had fallen to what you considered a low point, and it was necessary to replenish the silver portion?—Yes. May I just interpolate that it had fallen to a low point as far as I recollect, because the public had forced gold on the Government and taken rupees instead?

990. If gold had come in in such quantities and depleted the silver reserves, should not the gold which came in have been used to buy silver?—I see no advantage in that. The chief effect of what was done was that the Secretary of State's balances were reduced, and the Government of India's balances were increased, which I think was a good thing, because, other things being equal, I am sure you would agree that it is better to increase the Government of India's balances at the expense of those held in this country. Except for that, and for a certain saving through not transmitting the sovereigns which, under your scheme, would have been transmitted, I do not think that there is any material difference between the method that was actually adopted and what you suggest.

991. The difference, I think, is that in the case I suggest there would have been no addition to the total currency, but in the way that the operation was carried out, by the sale of council bills, there was an actual addition to the total currency?—I will assume that the stagnant part of the currency—you will forgive me for insisting on that—

992. I do not wish to stop you in any way, but I recognise that the reserves and the actual circulation are one so far as the total currency is concerned?—If your method (if I may call it your method, just for brevity) had been carried out, the difference would have been, first, that India would have had less gold in her reserves, which would have been, I think, a net disadvantage; secondly, that the Secretary of State would have had a very much larger balance at the end of the year than he actually did have, and that, I think, many people would consider also to be a disadvantage.

993. Is that so? I thought that council bills were drawn, to a certain extent any way, for the purpose of providing money to buy silver with. Is it the case that the silver purchases came out of the Secretary of State's balances?—The silver was paid for out of the general balances. I am very anxious to insist on that, because I am not sure whether I made it quite clear that there is no specific drawing of bills for a particular object.

994. Were not the council bills sold against the paper currency reserve last year?—I have not my first memorandum (Appendix I.) here; but I may say that what happens is that occasionally out of the total proceeds of council bills so much is set aside into the paper currency reserve merely to replenish the balances of the Government of India. I do not know if you know that system. Shall I explain to you what happens? Supposing that in a certain year the Government of India, out of its Treasury balances, can meet 20 millions of bills and transfers, and does so; then, if in the last month of the year there is a trade demand, the Secretary of State, wisely or unwisely—in my opinion wisely—meets it and sells perhaps another three million pounds worth of telegraphic transfers and bills. The Government of India, on the hypothesis I have taken, have not the means in their Treasury of meeting

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those bills, so the Secretary of State would transfer the proceeds of the bills into what we call, in our official language, his paper currency chest in London. Against that, the Head Commissioner of Paper Currency would issue to the Government of India 4½ crores of notes, and those notes would be used to meet these bills, at any rate they would strengthen the general resources of the Government of India so as to enable them to meet these bills. That is what we mean when we speak of drawing against the paper currency reserve; and I am afraid we have misled you by causing you to think that certain specific bills are drawn against the paper currency reserve.

995. In the statement issued by the Government it is put down that seven millions odd was drawn against the paper currency reserve?—That is a brief phrase which is capable of being misunderstood. What it is really intended to convey is that of the total bills that were sold, the proceeds of a certain amount of them were used in order to enable the transfer of sovereigns to the paper currency chest to be made in London.

996. I think that the statements I have seen did not provide for any credits to the paper currency chest in London?—Perhaps I might ask Mr. Gillan. I do not understand that the transaction can be other than what I have described.

997. (Mr. Gillan.) It must have been paid into the currency reserve in London?—(Witness.) Sir James Begbie thinks it is not so. I think that probably what has happened has been that some brief and technical phrase has been used which has given rise to misunderstanding. I would like to make complete the information I was endeavouring to give to you, Sir James. Sometimes, when bills have been sold, the proceeds are used to buy securities, like an investment for the paper currency reserve.

998. (Sir James Begbie.) I think it was stated to be for coinage?—I think what was intended to be conveyed is what both Mr. Gillan and I understand; and I cannot conceive any other meaning or any other operation.

999. When council bills are drawn, there is nothing to distinguish bills drawn against the Treasury balances from bills drawn against the paper currency reserve, is there?—No.

1000. Would that not be desirable, in your opinion?—I do not know. I do not think there would be any necessary advantage in it from the point of view of the purchaser of the bill. What he wants is a bill, pure and simple, and what the Secretary of State and the Government of India want to do, is from time to time to appropriate the proceeds of bills and say, so much shall be added to the general Treasury balances, and so much shall be added to the paper currency reserve so as to ease the Government of India. May I just illustrate it? It is rather important as you have raised it. I want to illustrate the convenience of making these appropriations in round sums. I read out yesterday, in answer to a question of the Chairman, a summary of some telegraphic correspondence relating to an incident where it was suggested that the interests of India had been subordinated to the interests of the London money market.* If you remember, the correspondence ran somewhat in this way: The Government of India say, "Please transfer half a million to-morrow or a few days hence to the paper currency reserve." The Secretary of State says, "I will if it is necessary," and finally the thing is done. That kind of transaction, making the transfers or appropriation in round sums of half a million or a million, is incomparably more convenient to the Secretary of State and to the Government of India than selling these bills one by one specially appropriated to particular funds, or specially payable from particular funds. A further difficulty in the way of your proposal is that a Bombay bill is, as you know, payable at the Bank of Bombay, and all that one can instruct the Bank of Bombay to do, I think, is to meet the bill from the general balances of the Government which are lodged at that bank.

1001. Am I to understand that when you require to buy silver for coinage purposes, it is not material whether you use the gold you have or whether you

draw council bills or take it out of the general balances?—I do not think there is any question of principle involved. I think that *prima facie* when the Secretary of State has large balances, and has no immediate use for them, it is better for him to use them, or some of them, to pay for any silver that may be required.

1002. Coming now to the Indian branch of the reserve, you say that for special reasons the normal amount of six crores has often been departed from; do you propose to submit particulars of the instances of departure and the reasons for it?—I have already given, though perhaps it has not been noticed, the instances of departure and practically in all important cases I have given the reason. If you will look at Appendix III., page 97, statement A, column 7, you will see that at the end of 1906, after the silver branch had been built up to 2,300,000*l.*, it suddenly dropped in the next quarter to 69,000*l.* Then if you look at column 5 of the same table you will see the explanation of that, namely, that the whole of that money and some money besides, had been taken by the Government of India as a temporary loan at 3½ per cent. interest. The same thing happened, but one need not go through it in detail, in 1908, as you will see from a footnote, and it also happened in December 1909, as you will see from another footnote. I think that is the essential part of the history, that these loans were taken and repaid except that I ought to add that the repayment during 1910, 1911, and 1912 was delayed. You will see at the foot of column 7 that the normal amount of four millions was not restored until the quarter ending 31st March 1913.

1003. Do you regard the balances held in 1910, 1911, and part of 1912 as temporary withdrawals?—I think that is the way to regard them. I never like to maintain that the Secretary of State has been more consistent than he has been. Occasionally he has wavered (and he has not been the only waverer in that matter) as to the complete desirability of maintaining the Indian branch of the gold standard reserve. I do not know whether he is now completely convinced that it ought to be kept up at six crores—I think that he is, but I do not know that he would endorse the argument in favour of it that I put forward. This diminution in 1910, 1911, and 1912, I think, ought to be regarded as evidence of his period of uncertainty.

1004. Were there any special reasons for the departure from the normal amount for such a long time?—I have mentioned what one may summarise as the psychological reason; and a further reason is that there were so many rupees in the paper currency reserve that the need for increasing the stock in the gold standard reserve was *pro tanto* rather less. But perhaps the answer to what I think is your real question is that there is no evidence of deep and subtle policy in this temporary diminution. I think that is what you really wanted to know.

1005. In several places throughout these papers you lay stress on the risk of injury to Indian interests by the sale of bills in London against the paper currency reserve in India necessitating the earmarking of gold at a time when the Secretary of State was borrowing in London, or at a time when the London market was stringent, or at a time when stringency already exists and an increase of it is likely to react on trade generally, including Indian trade. This seems to be a most important point, and it appears to me to call for a detailed elucidation. Would it be convenient to give particulars of specific instances in the last four years where the influence mentioned controlled the sales of council bills?—I do not think one could give a specific instance. Generally speaking, the Secretary of State sells his bills, as you know, subject to not interfering with the flow of gold to India. Then I mention in various passages of my memorandum that if he completely changed his policy and greatly reduced thereby the flow of gold to India, probably there would be a stringency in the London money market which would affect Indian trade. But is it not difficult, if not impossible, to give specific instances of what would happen in the event of a different policy being adopted?

* See Appendix V., pp. 136-7.

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1006. That is not quite what I was suggesting. I would like, if possible, if we could have had figures before us, to substantiate the idea that these things were done in the interests of India and to prevent any harm being done to India?—You say these things were done. What I did was to describe the practice that is followed in the belief that India would be harmed if a different practice were followed. I am quite prepared to defend the view that that belief is well founded, but when you ask for specific instances you are asking for specific instances of the effect of a policy which has been rejected. I am very anxious to meet you in every respect, but that is my difficulty at the moment.

1007. You do not think then that you can more clearly show to us that all these things of which you tell us have been done because you considered it was in the interests of India?—Of course, that almost comes to the question of one's personal attitude towards the business that is entrusted to one. I will not speak about myself, because it would be egotistical, but I am quite sure, to speak of the members of the Council of India, who have a considerable part in this business, that their object is to seek the interests of India in these matters, and having known them all intimately for many years, I think it is a very great misfortune that some writers on our affairs have put forward the other view. I am not sorry that you put these questions, because the other view has been put forward with such extraordinary vigour which can be seen through a very thin disguise. In paragraph 37 of Appendix I, you may have noticed there was a writer in "The Times" who said that the Joint Stock Banks' representatives habitually subordinated the interests of India to the interests of their banks, but that no suggestion was made against their personal integrity. I daresay you noticed that rather striking passage. Of course, you could not help noticing that if Joint Stock bankers who are paid handsome salaries to look after the interests of India, used their position in order to subordinate Indian interests to Joint Stock Bank interests, that conduct would not be consistent with personal integrity. I can only say that I have repeatedly discussed those kind of questions about council bills and so on with practically everyone who has had to deal with the financial affairs of the India Office, and my impression, indeed my firm conviction, is that the interests of India, as they have been understood by the persons concerned, using their best intelligence, have been the predominant consideration.

1008. (Mr. Gillan.) I wanted first to ask you a question or two about the coinage of silver to which Sir James Begbie has referred. I think we have got already what you wish to say, but I want to bring it to a point. The currency system of India is very frequently regarded as a manipulated or managed currency system, is it not?—Yes.

1009. And it is inferred, or I suppose it might be inferred, that the Government actually determine the amount of coinage?—That is implied in the criticisms.

1010. It would be more correct to say, would it not, that what the Government have to do is to estimate the requirements of currency?—Yes.

1011. Suppose that at any time they ran short, what would happen?—What would happen would be that they would find a difficulty in converting their currency notes. I think that would be the first result.

1012. They would have to refuse to meet demands for rupees?—Yes.

1013. Which would be a very serious matter?—Yes.

1014. On the other hand what would happen if they over-estimated and over-coined?—Then what would happen would be that superfluous rupees would be in their various reserves, but, as I was putting to Sir James Begbie in a slightly different connection, not in actual circulation. You cannot force rupees into circulation.

1015. That was my point precisely. The Government of India have no means of forcing rupees into circulation if they are not desired by the public?—Quite so.

1016. You mentioned in your replies to Sir James

Begbie just now that the question is very often put, "Why does not the Government give India a gold currency?" I want to bring that out more particularly in connection with the Fowler Report. Sir Shapurji was asking you yesterday about their recommendations with regard to the constitution of the reserve, and whether it should be in gold or in gold securities; and what I want to bring out now is a recommendation with regard to the constitution of the currency—I think we can get at that. You suggested, did you not, that there is often an indefiniteness as to what is meant by a gold currency?—Yes.

1017. I want to bring that point out and I think I can do it in this way: Supposing we begin with England; putting aside the subsidiary coinage which is not to the purpose, there is in the English system a definite obligation to meet any form of currency, whether it is notes or cheques, in gold?—Yes. It is a definite but curiously limited obligation in a sense, as the Bank of England only undertake to pay their notes at one or two centres, so that if you are at Bournemouth or Ramsgate and have a £5 note, you may find some little trouble in cashing it.

1018. But, subject to that limitation, what I have said is accurate?—Subject to that, but it is a considerable limitation.

1019. If you go to other countries mentioned, to the Philippines, West Africa, and so on, the limitation of the duty to give gold goes very much further, does it not; for instance, in France you have got a very large silver coinage which is an unlimited legal tender?—Quite so. The French currency system, I think, is, to all intents and purposes, the same as the Indian currency system, and they are both known by the well-known designation of the limping standard.

1020. (Mr. Keynes.) That phrase is never used of India, is it?—But surely it is applicable in exactly the same way.

1021. (Mr. Gillan.) It is not exactly the same thing. What I wanted to bring out is that you may take France, Germany, and the United States and you will find a very distinct limitation in all of them of this obligation to give gold?—That is so.

1022. So if India is half-way in the matter of currency between gold and silver it does not in any sense occupy a very special position?—Certainly not.

1023. It is in the position of the great majority of countries?—It is certainly in the position of many important countries.

1024. You do not say the great majority?—One would have to go through Denmark, Norway, and Sweden.

1025. Very well; we will leave it at that. It is really a question of England having an absolute standard?—Quite so.

1026. Now I want to refer you to the Fowler Committee. They say, in paragraph 54 of their Report,* "Looking forward as we do to the effective establishment in India of a gold standard and currency based on the principles of the free inflow and outflow of gold, we recommend these measures for adoption"; and they go on to say in the next paragraph, "Under an effective gold standard rupees would be token coins, subsidiary to the sovereign. But existing conditions in India do not warrant the imposition of a limit on the amount for which they could constitute a legal tender; indeed for some time to come no such limitation can be contemplated." Then in paragraph 59 they say that a system which had been found sufficient in France and the United States was sufficient for India?—That is so.

1027. Would you agree that critics of the Government policy who appeal to the Fowler Committee and say, They recommended a gold currency, therefore let us have a gold currency now, have either to show that conditions have changed since that report was written or to explain what exactly they mean by a gold currency?—Yes, and how far what exists now in the way of a gold currency fails to conform to the ideas that can be traced in the Fowler Committee's Report as to what a gold currency meant.

* C. 9890, page 16.

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[Continued.]

1028. They said at the time in paragraph 55, "Existing conditions in India do not warrant the imposition of a limit"?—That is so.

1029. Therefore, it has to be shown that the conditions as they now exist do?—When you are speaking of a gold currency you are speaking, I think, of an obligation undertaken by or imposed on the Government to give gold in exchange for rupees.

1030. I want to ask you whether you do not consider that that is a condition essential to a gold currency in any full sense of the term?—You and I are, I think, at one as regards substance; but I think we should express ourselves differently. I should say that a gold currency means the absence of any discouragement and the presence of a certain amount of encouragement to the use of gold for the purpose of effecting exchanges; that that exists in India and that therefore India now has, so far as it desires it, a gold currency. You put it rather that a gold currency means the undertaking of an obligation by the Government to give gold in exchange for other forms of currency. I think one might also say that if that is what a gold currency means, the United Kingdom does not possess it and will not possess it until it undertakes to give a sovereign in exchange for twenty shillings, which it does not now undertake to do.

1031. I am not differing from you in any sense. Supposing someone comes to us and says, You have not got a gold currency at present; it is for them to show what further action they require us to take, is it not?—Quite so.

1032. Is there any action which suggests itself to you apart from this undertaking of a definite obligation to give gold on all occasions?—No, I cannot conceive that any action other than that really undesirable action is possible, and it is for that reason that I rather insist on the point, I hope not tediously, that India has a gold currency at the present time, so far as it wants a gold currency. I am only anxious to say that that is my position and that I do not take the position which might be taken, namely, that India does not want a gold currency or that India ought to have it but has not got it. I say that the nearest brief proposition that you can lay down consistently with the truth is that she has got it. Shall I be interrupting you if I put in one figure which very greatly interests me and which bears on this subject? I noted down—and I think it may surprise some members of the Commission—that the absorption of sovereigns by the public in the 14 years from 1899–1900 to 1912–3 was 64,815,000*l.*, while the absorption of rupees during the same period was 66,750,000*l.* The reason I want to put that comparison in and at this point in your examination is to confirm what I say, that when India requires fresh currency now, judging by this period of 14 years, she requires practically half of it in gold and half of it in silver.

1033. (*Mr. Keynes.*) Is the table from which you are taking these figures printed amongst the memoranda that we have?—The absorption of gold is shown in the statement attached to Appendix VI. on page 216, the absorption of rupees is not—I have added in manuscript in my copy these figures.

1034. You do not suggest that that is a measure of the amount of gold in circulation, do you?—No. I am sorry to interrupt Mr. Gillan in order to answer Mr. Keynes's question. That of course is one of the difficulties. You pour gold into the circulation, and then India may or may not use it as a circulating medium. I think it is important, in considering how far the Government has done what it can to encourage gold, to note that in the last 14 years it has put in circulation, whatever may become of it, practically as much in gold as in rupees.

1035. (*Mr. Gillan.*) Is your view with regard to the internal currency simply that the only duty of the Government is to see that people get the kind of currency that they want?—Yes.

1036. And that it is not necessary for the maintenance of the parity of exchange that it should be a gold circulation?—Quite so.

1037. That is a very important mistake which is sometimes made, as you recognised?—It is very important indeed.

1038. Now about the external currency, the currency that is required in the adjustment of foreign trade. We had some evidence yesterday about what happened in the crisis of 1907–8; is it correct to say that when the Government started this currency policy they were thinking mostly of their own requirements, that is to say, of the amounts that they have to discharge at home?—When you say "when they started this currency policy" are you thinking now of 1893?

1039. Up to 1907, say?—Do you mean when they established the present currency system?

1040. I do?—Then my answer is: Quite so.

1041. Did not that point of view rather colour the action of the Government when they first faced this crisis of 1907?—Their action was coloured partly by what you say and partly by the influence, which has always been a very powerful influence, of the Report of the Fowler Committee. The Fowler Committee spoke in very generous terms of Mr. Lindsay, who was the advocate of the policy that was followed in 1907–8; they spoke very generously of him as a contributor to the subject, but they very faintly praised his scheme of the Government undertaking to sell exchange on London at a time of adverse trade, and they spoke with equally faint interest or praise, I think, of a similar scheme that was put forward by Mr. Henry Raphael. So that in 1907–8 when we did sell some sterling exchange we were not only departing from the previous ideas of the Government, as you mentioned, but also from the ideas that bulked very large in the Fowler Report—it was a new departure.

1042. It came into force by stress of circumstances, the Government recognising that they must maintain exchange, not only in their own interest but in the interest of the trade of the country generally; would you say that?—I would put it a little more generously and say that the Government had the wisdom to perceive that it was a wise course to take. But I think it comes to the same thing.

1043. Sir Shapurji said yesterday with regard to this point, that the Government had never undertaken any absolute obligation to meet a future crisis in the same way?—That is so.

1044. If our reserves were exhausted, if we failed to meet a crisis, then the exchange might drop, not as you said yesterday by $\frac{1}{4}$ or $\frac{1}{2}$ below 1*s.* 4*d.*, but we will say to 1*s.* or any point short of the bullion value of the rupee?—What you say opens a very large question. The particular points I want to mention are first of all as regards the possibility of a fall in exchange and the point to which exchange might fall; and secondly as regards undertaking a general obligation in much wider terms than have ever been used. I think that both in the utterances of those who speak with authority on this subject and in actual fact one could find much support to the view that even if we had a very bad trade year the fall in exchange would not be nearly so serious as you suggest. In the remarks which Lord Courtney made before the Fowler Committee, which were very interesting remarks, and came from a man who was very eminent in these matters, the general outcome was that the 1*s.* 4*d.* exchange was founded on the rock, and even if you had no gold standard reserve or any special supports it would not be seriously disturbed. I think that is over-optimistic myself.

1045. We are speaking of a crisis, you understand, not of the ordinary fluctuations of trade?—I know. But supposing you had a crisis such as occurred at this time, 1907–8, with no extraneous support for exchange such as the gold standard reserve; then it is a matter of speculation how low exchange would go. My own view is that it would probably not go down as low as the figure you mention. That is rather an incidental remark and I wanted to make it, but if I may I will go on to my other remark now. I recognise—I am not sure whether the Secretary of State in Council and the Government of India would do so equally—that a currency system like ours tends to evolve in the direction of the undertaking by the Government of more obligations than the Government of India has under-

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taken so far. Of course the ideal climax to a system like ours would be that the Government should undertake whenever exchange fell below a certain point to sell exchange on London at a fixed price, and I can see great advantages in it. Provided it is done at the right time but not immediately, I mean provided one waits until one has a big enough reserve to enable it to be done, I do not think there will be any great danger in it. I think one might look forward to it as something to be done as the crown and consummation of the system.

1046. I have only one or two questions that I wish to put about the paper currency reserve, which I believe is a subject that will be dealt with more particularly by Mr. Newmarch?—Yes.

1047. What I wanted to get from you is the place of the paper currency reserve in the general scheme of Indian currency. The idea of the paper currency reserve in India is to a certain extent that 14 crores, I think, are issued against securities, and after that stage every note must be covered by gold or silver coin?—Yes.

1048. There is no provision in the system for any sort of elasticity?—No.

1049. None at all?—Except that you may regard this as providing elasticity—that the circulation of notes can be suddenly increased in India by an addition of gold in England to the Secretary of State's portion of the paper currency reserve. There is, therefore, a little elasticity.

1050. At the same time the requirements in India for an elastic currency are very marked?—Very.

1051. That is owing to the seasonal variation?—Yes.

1052. Do you think it would be worth while considering some alternative system of the paper currency reserve in India?—If you will not unduly shock commercial opinion in India I think it would be an enormous improvement if arrangements were made by which additional notes could be issued at suitable times, especially in the busy season, either uncovered altogether, or what I should prefer because it would look better against security that can suitably be held for a very short time. Supposing there were first class bills which became due to be paid off three or four months after the date on which they were received, then by putting such securities into the paper currency reserve and issuing notes against them, there would be a possibility of elasticity without any risk worth considering, in fact, humanly speaking, without any risk at all, and I think trade and other interests would benefit by it. You will notice that in my Note on the Gold Standard Reserve I mention that, I think it was in paragraph 26 of Appendix III., page 95, but I am afraid I yielded to a tendency to conservatism against which I usually try to fight.

1053. I do not want to develop that further at present; I only wanted to get your general view upon it. About the reserves, it is true, is it not, we must look on them generally in the aggregate?—There is a great deal to be said for that, but you can go a little too far in that direction for reasons which I was mentioning yesterday, I think, and which you doubtless remember.

1054. I do not want to go into it too much. The point I was leading up to is this: you have got in paragraph 4 of letter from India No. 89, dated 1st April 1909, which you will find in Appendix V., page 169, a statement of the reserves amounting altogether apparently at the beginning of the crisis of 1907 to about 24½ millions; and I wish to ask you what are the similar figures at the present time? You have got about 20 millions in the gold standard reserve, have you not?—I will give you the figures as best I can, and then I am sure you will allow me to correct them in the proof. For the gold standard reserve you will find the correct figure in Statement B. of Appendix III., page 98. It is not quite so high as you mention; it is 18½ millions. The currency gold in England is a little more than 6 millions, and the Government gold held in India would be at the present moment a little under 18 millions.

1055. I thought it was a little more, but I did not quite know. What have we altogether?—Allowing for errors of memory that would be about 42½ millions.

1056. Then to that extent we are in a stronger position to meet any future crisis than we were in 1907?—Enormously.

1057. I do not know whether, with reference to these figures, you would like to add anything to what you have already said about the amount to be held in the gold standard reserve or with regard to these investments in securities?—There is one obvious remark—I am not sure that it would be agreed to by everyone, but I think it is worth making—that the best system if practicable of measuring the amount required for the gold standard reserve is that one should make it contingent to some extent on the other sterling resources to which you have just drawn attention. There are advantages in considering it in isolation. But on the whole, I think, if there is not too great a sacrifice of simplicity, it is better to have as one's working rule that the gold sterling assets in the paper currency department, plus the corresponding assets of the gold standard reserve, should be of a certain amount allowing for variations between the various items making up the total. That is the chief remark I should like to make. The other is of no very great importance, but it supplements what you were saying. You not only showed that with regard to the amounts we are in a much stronger position than we were, but I should like to add that as regards the form in which our invested portion is held there is an advantage, a very great one, if you compare the investments before 1907 with the investments now held, and of course there is more gold in the gold standard reserve, and there is some money that is held practically at call.

1058. We are familiar with the criticisms to which you referred, I think, that Indian interests are very often subordinated to the interests of Lombard Street; but it is the fact, is it not, that to a very large extent those interests are the same?—Yes.

1059. That is an argument on which stress has frequently been laid—that India cannot do anything to disturb the London money market without injuring itself?—I am always anxious not to insist on that too much. I feel that occasionally the interests of the London money market and the interests of India do not coincide. I would rather say that it is the duty of the India Office to see that Indian interests are considered as against London interests, when there is not an absolute coincidence—I prefer that—rather than to put up the comfortable proposition that there is a providential coincidence of interests on all occasions.

1060. There very often is a coincidence?—Yes.

1061. Or rather the interests of India very frequently depend in a very marked degree on the state of the London money market?—Yes.

1062. For instance, at present we are faced with the difficulty of raising money for our railways?—I am entirely in agreement with you, but I was anxious that one should not appear to overstate it if I may say so.

1063. It is a criticism, is it not, that all this gold is taken out to India and is locked up there in the Government coffers?—Yes.

1064. The Fowler Committee in the same paragraph that I have referred to speak about securing not only the free inflow but the free outflow of gold from India?—Yes.

1065. It is objected that while more gold goes into India than is really required or used, it does not come out?—I have seen that objection.

1066. I want to know what you think about that objection?—I think that there is very little substance in it. If we sold our council bills in a very different way from that in which we do sell them I have no doubt that a great deal of gold would go to India and would remain there for a time, and then would come back as indeed was the custom some years ago, that is to say, if you look at the history of our Treasury transactions between 1899 and about 1905 you will see there was a continual inflow and outflow of gold—all very wasteful and doing no good to anyone.

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1067. When you say continual do you mean continuous; would it not be seasonal?—It would be seasonal. When I said continual I meant that every year, or perhaps two or three times a year, there would be large shipments home from India of gold which had been travelling into India week by week at a certain period of the year. Now, what we do or what we try to do, and I think fairly successfully, is to see that India has, as a rule, as much gold as the people require. When there is an opportunity of selling bills as a substitute for the import of unnecessary gold, we try to sell such bills so that the money may be held by the Secretary of State in London for the purposes of India.

1068. In any case this gold which is now held by the Government in India would in all probability come out on the occurrence of the next scarcity?—Did you say that which is held by the Government?

1069. Yes?—I suppose so.

1070. I do not know that you can expect it to come out of India so long as the exchange is in favour of India?—I thought you meant come out of the reserves into general circulation.

1071. Either that or out of the country?—Of course that is one of the odd problems about gold in India. You noticed what I mentioned in paragraph 9 D. (b) of Appendix III. (page 90), that in that last great crisis the Government lost out of its reserves 4 millions of sovereigns, of which 94 per cent. apparently remained in India and only 6 per cent. was exported. It is quite possible that in the next crisis the Government gold may merely disappear into hoards or into internal circulation in India and may not be sent home to England; I do not know that anyone has any right to complain of that.

1072. The Government can send home gold themselves?—If the Government adopted that change of policy it would be a very striking departure from what they adopted in 1907.

1073. Do you think anyone could expect the gold to come out of India in the present conditions, as long as exchange is in favour of India?—No.

1074. (Lord Kilbracken.) Is it not sometimes assumed or implied that there is a necessary and natural connection between the profit made by the Government of India on the coinage of rupees and the amount at which the gold standard reserve figures?—Yes. For the moment, of course, the gold standard reserve consists of the accumulated profit, but I understand your point to be that if after certain amounts have been reached for the gold standard reserve further rupees were coined, it would not be necessary to add the additional profit because we might have reached a point of safety.

1075. You do not think that the number of rupees coined ought to be the measure of the amount kept in the gold standard reserve, do you?—No, I certainly do not.

1076. I understand you to say that it is possible that the profit on the coinage of rupees may supply more than is wanted to form an adequate reserve?—Yes. I think that is the view very generally held by anyone who has examined the figures.

1077. At certain times have the profits on the coinage of silver been diverted to the paper currency reserve and to the supply of rolling stock?—Not to the paper currency reserve but to the Indian branch of the gold standard reserve.

1078. At any rate it has been diverted to other purposes?—Yes.

1079. Do you consider that at the time that was done there was nevertheless an adequate amount left in the gold standard reserve?—Yes, and fortunately it does not depend on my opinion—events proved it. I held that opinion when it was about to be done, and I was fortunate enough to find that when it had been done events confirmed my opinion.

1080. I believe I am right in saying that the report of such a Committee as the one presided over by Sir Henry Fowler has no authority or binding effect whatsoever upon this Office or upon the Government of India, except in so far as it may be accepted and acted on by the Secretary of State in Council?—Quite so.

1081. If that is so, I suppose it follows that the Secretary of State acting on behalf of the Government may accept the recommendations of a Committee and yet may be perfectly justified in changing his policy and taking a different course after further experience?—Yes; it is his duty.

1082. (Sir Shapurji Broacha.) Supposing you took out one million sterling from the paper currency reserve here for the support of exchange, the Government of India would put a crore and a half in the currency reserve in India against that, would it not?—Yes.

1083. So the proportion is never broken and therefore the statute is never broken?—Quite so.

1084. So the reply to Sir James Begbie's question about the Secretary of State breaking the statute is that the statute is never broken, for whatever the amount which you take out from the currency reserve for the support of exchange so many rupees are put into the Indian Treasury into the currency?—I am much obliged to you for bringing out the point; but I do not think Sir James Begbie raised any doubts about it.

1085. When the Secretary of State bought bills at 1s. 3 $\frac{3}{4}$ d. the Secretary of State made a profit on buying at a lower rate than he sold. It is something like selling a sovereign for francs, is it not, when you get 25.12 francs?—Yes.

1086. There you are paying a much higher price than the gold contained in the 25.12 francs, because the commission on exchange and the transport charges are included?—I see your point. When the operation of restoring the reserve was going on the Secretary of State was making an exchange profit as compared with the rate at which the bills on London had been sold.

1087. That is it; it is just like selling rupees on Calcutta at $\frac{1}{16}$ th discount as the Government charges?—It is in fact an ordinary business operation.

1088. That is not breaking a law and it is not selling at a lower rate than the market rate?—No.

1089. (Mr. Keynes.) Yesterday you gave about 30 millions as the proper figure for the sterling reserves to reach?—The sterling reserves to be held in London.

1090. In your opinion has the time yet come for the Government to enter into a definite undertaking to maintain exchange within certain prescribed limits of fluctuation?—I should say in my opinion, and I am very anxious not to commit anyone beyond that, the time is approaching but it has not yet come. I think if I were an autocrat in these matters I should wait until the reserves have got nearer to the amount that is considered suitable. Supposing my figure of 30 millions were to find acceptance I do not say one need wait until the 30 millions have been reached, but it would be well to wait until one is nearer 30 millions than we are now.

1091. Anyhow, when the 30 millions have been reached, then you think there would be no objection to the Secretary of State entering into an undertaking to maintain exchange within certain limits?—As I say, it is very important that I should speak only for myself, but speaking for myself I think that that should be done. I may say that I am, as it were, deeply committed in the matter, because the Colonial Secretary was good enough to ask me to join the West Africa Currency Committee, which in a way dealt with important questions, and on which we recommended, and I think the Government is carrying out, a similar policy for West Africa, that is to say, the obligation to sell exchange on London is unlimited.

1092. You mentioned a few minutes ago that the Government have now got 18 millions in India in gold. But if they were to export 5 or 7 millions of that to London they would then already have the 30 millions in London?—That is so.

1093. So if they were to take that step they would then be in a position to enter into the undertaking immediately?—That is so. I had not thought of it for the moment because it struck me there would be some dismay in some circles in India if that export on a large scale were to take place. But I can see advantages in it; I mean, if my view were endorsed

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by the Secretary of State, it would certainly put the Indian currency system on a very firm foundation; it would greatly improve it.

1094. Do you think it is arguable, therefore, that it might be a good policy to bring home from India 5 to 8 millions of gold for that use?—If it were intended to use it for this particular purpose, to take this very great forward step in our currency system, I certainly think that is arguable.

1095. One further point connected with that, though of much less importance: If, when the next crisis comes, the Government has still that 18 millions in India in gold, would it be a wise policy for the Government to export part of their gold to London themselves?—The Government ought, if it has a very large sum at the beginning of the crisis, which is, perhaps, not very improbable, because crises come in a very slow and insidious way—if it has a very large sum at the beginning of the next crisis, it ought either to export it itself or, I think, to take special steps to secure that a considerable portion of it at least is used for export. On the last occasion, the crisis of 1908, I am afraid that the Government of India temporarily reversed—they probably did not realise they were doing it—for the time, the policy that the Fowler Committee had recommended. The Fowler Committee said the chief use of a gold reserve—I think the Chairman quoted it yesterday—is to be exported at certain times, and the Government of India took the view that the chief use of a gold reserve was to keep up the internal circulation of gold, and that its use for export ought to be restricted in order to secure that the internal circulation was kept up. I think that that policy ought not to be repeated, but that the exact measures for reversing it and the exact extent to which each measure should be taken would want considering.

1096. (*Chairman.*) I understand that the primary and main object of the gold standard reserve is to maintain the exchange?—Yes, to prevent exchange from falling.

1097. And that, in your opinion, the recommendations of the Fowler Committee, when relating to the gold standard reserve, have been in all substantial particulars carried forward?—Yes. Of course the recommendations were very sketchy and incomplete owing to the circumstances which then existed.

1098. In particular to hold the main portion of the reserve in London in readily realisable securities does, in your opinion, fulfil the functions of the Fowler Committee, though they spoke of holding the reserve in gold?—Yes.

1099. Your view is that those securities are as good as gold for your purpose?—Yes, and that the Fowler Committee, when they adopted that paragraph in their report, meant "gold" to be used in the wider sense.*

1100. (*Sir Robert Chalmers.*) Not silver, in fact?—Quite so.

1101. (*Chairman.*) It comes to this, that these securities are readily convertible into gold at any moment?—Yes.

1102. And that is why they are as good as actual metallic gold?—Yes, they are readily convertible—I am sorry always to put in this point—into sterling money. I made the remark for this reason: someone has said—I do not know if it was a member of the Commission—that if you want to sell your Consols or your Treasury bills and take the proceeds in sovereigns and take them away it would be a very difficult operation to carry out at this moment. I quite agree with that remark. But of course if one had to use the gold standard reserve, one would not need to take the money in sovereigns.

1103. When you get to the bottom of this transaction, does it not in fact rest upon somebody else keeping actual gold if you do not keep it yourself?—Certainly. I do not wish to overstate the difference between taking the proceeds of one's securities in banker's money and in gold respectively; but also I wish to mention that there is a difference.

1104. Do you agree that it is only safe for you to hold a large proportion of the gold standard reserve in securities instead of in gold itself on the assumption

that somebody else is holding large stocks of gold so that gold will be readily available if it is required?—Yes; or that sterling banker's money will be available.

1105. What exactly do you mean by sterling banker's money?—I hope I do not insist too much on the difference, but it does seem to me important. When a large payment has to be made from India to this country or to Europe generally (because Sir James was pointing out that such payments may have to be made to Germany or France in liquidation of an adverse balance of trade), the Government of India would offer to sell exchange on London to those people who have to make the payments and would realise its securities and would pay, say to the National Bank of India or to the Hong Kong and Shanghai Bank, to one a cheque for 100,000*l.*, to another a cheque for 300,000*l.*, and that money would go ultimately to pay the Manchester cotton spinner who had exported goods to India, and to satisfy whose requirements the whole of these operations were being carried out. It is important to remember that the Manchester cotton spinner does not want so many hundred thousand golden sovereigns. What he wants is to see at his bank, perhaps at the Bank of England itself, a figure with a suitable number of noughts after it standing to his credit.

1106. That is to say, as long as there is credit you hold that you do not need gold?—You say "credit"; I hope I am not obstinate, but I think that "bankers' money" is the expression, because when one mentions credit it implies that there is some borrowing involved, that someone is lending someone something. Having a big amount to your credit in your bank does not involve credit.

1107. (*Mr. Keynes.*) Are you not lending to your bank?—Yes, in that sense there is credit, but I was anxious to avoid certain of the connotations of the word "credit" which are not really relevant.

1108. (*Chairman.*) I want now to go to the question of the coinage of gold in India. You have handed in a short note upon the subject which we may include with your evidence, I think?—Yes (see Appendix VI., page 212).

1109. We have also had circulated to us a return moved for by Mr. Touche in the House of Commons and presented to that House, dated the 31st January 1913 (495)?—Yes.

1110. The views of the Government of India are, I think, set forth in their despatch No. 59, dated 16th May 1912, which appears on page 57 of Mr. Touche's Return?—Yes.

1111. At the present time both gold and silver are, I take it, established as legal currency in India?—Yes, and without limit of amounts.

1112. How would you describe the Indian system? We have touched upon that on two or three occasions, but I would like to hear your description of what the Indian system now is?—We had a few words about it earlier in the day, and I applied to it the well-known phrase of the limping standard, because I thought that that phrase properly applies to any currency system in which two metals are full legal tender; when I say full legal tender, I mean legal tender without limit of amount, without the two being convertible one into the other by statute. Whether I have applied the right designation to it or not, that is the position in India; sovereigns and rupees, as you see, are full legal tender, and the public has a right definitely secured, though not a legally established right, to get rupees in exchange for sovereigns at a certain fixed rate, but there has been no undertaking to give sovereigns in exchange for rupees. The system is supported, as you know, by the action taken by the Government in the past and the expectation as to the Government's future action when support is needed.

1113. Is the result of the working of the system, as you have described it, that a parity of exchange is preserved with gold-using countries, but that a similar parity of metals is not preserved in the internal economy of the country?—Between India and gold-using countries a parity is maintained, and there is ordinarily a very close parity between rupees and sovereigns actually in India. The rupee cannot go

* C. 9390, paragraph 60, page 18.

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appreciably above one-fifteenth of a sovereign, because anyone who presents sovereigns can get 15 rupees for each of them. I do not think that it is possible whilst international exchange with gold-standard countries is maintained that the rupee should go materially below one-fifteenth of a sovereign; but there is no special machinery by which the holder of the rupee can get sovereigns, except when it is convenient to the Government to let him have them; that is to say, in effect, he can get them when the Government has them, but the Government does not undertake to get a stock of them in order to supply his demands.

1114. Now I ask you to look at that despatch, to which I have alluded, of the Government of India, No. 59, on page 57 of Mr. Touche's Return (H.C. 495 of 1913). In paragraph 3 the Government of India say, "It is, we think, an indisputable fact that the establishment of a gold currency was regarded as the logical and natural sequence of the closing of the mints to silver, and as the necessary accompaniment of the establishment of a gold standard." Do you agree with that statement of fact, in the first place?—Yes. I think that the ideas prevailing in the minds of those who recommended the establishment of the present system include the use of gold as currency.

1115. Do you yourself think that is a logical and natural sequence of the closing of the mints that there should be a gold currency established?—No. I think it is convenient, India being placed as it is, and the tastes of the people of India for the use of gold being what they are, that gold should circulate as actual currency; but, as you know, there are some countries which have a well-established gold standard which do not use gold for currency purposes. I noticed that one important Canadian bank manager developed that very fully before a recent Canadian Committee. It was familiar to me, because the late Sir Edward Clouston put it very strongly before the Fowler Committee in 1898. Canada, as everyone knows, is a gold standard country, and it has a well-established gold standard; but the use of gold as currency there is extremely infrequent; at least so I am assured, but I have never been there.

1116. I think you are referring to some evidence given by Sir Edmund Walker, the President of the Canadian Bank of Commerce before the Banking and Commerce Committee of the Canadian House of Commons?—Yes.

1117. I have that evidence before me.* He was asked, "Do you think the public will not receive gold from the banks?" And he replied, "Oh, no, I do not say that; but it is not the kind of circulation that people want, and it is a very wasteful kind of circulation. (Q.) It obtains in all great countries in the world?—(A.) It does not obtain in all great countries in the world, only in Great Britain. (Q.) And in Germany and in France?—(A.) Not to any great extent." Do you agree with that?—I cannot speak with any precision about the practice in France and Germany. It is a matter of common knowledge that in Italy, which has now a well-established gold standard, the use of gold is extremely infrequent and the habitual currency is notes.

1118. I gather that one reason put forward by the Indian Government for desiring the coinage of gold is the belief that it will increase the amount of gold in India?—No, I think they guard themselves against that. I think they say that it would not bring more gold to India. I think perhaps what was in their mind was this—that they thought it would increase the amount of coined gold in India by inducing the owners of bullion and ornaments to bring them to the gold mint and have them coined into sovereigns.

1119. Do they not go a little further than that, and suggest that the amount of gold in India will be increased, because there will be more gold in circulation and in the hands of the people?—I am inclined to think that they do not put that point.

1120. Do you think that their inference is only that

gold now hoarded will take the form of coin?—Yes. May I refer to the Secretary of State's despatch, No. 139, dated 18th October 1912 (page 65 of H.C. 495 of 1913), which summarises the views of the Government of India? It says at the end of paragraph 1, "You hold the opinion, which seems clearly correct, that it would not be likely to increase the importation of gold into India." The passage on which the Secretary of State's summary is founded is evidently paragraph 14 of the letter from the Government of India.

1121. That is the paragraph in which they say, "Neither, in proposing to open a gold mint, is it our intention to induce thereby an increased flow of gold to India"?—Yes, and you see that paragraph ends with the words, "but the aggregate inflow of gold will, so far as we can see, remain unaffected."

1122. On the other hand, they are of opinion that the opening of a gold mint and the extension of gold circulation would aid in supporting exchange?—That is so.

1123. Do you share that opinion?—I do not think that it would give any material help. I think I was mentioning yesterday that I hold the view which Lord Goschen and Mill and many distinguished economists have held, that the gold which is actually in circulation is of very little use in maintaining the exchange between the country in which it is circulating and other countries.

1124. What are the advantages which you would expect to accrue, if any, to India from the opening of a gold mint there?—I think that there are very few advantages indeed. Of course you are not asking me about the advantages of the circulation of the sovereign, because that is a different matter, seeing that it is well recognised that it can circulate whether there is a mint or whether there is not. I think the advantages of a gold mint are very slight indeed, seeing that sovereigns can be imported, and are freely imported, to a very great extent. One advantage to which I do not attach very much importance is that it would be possible to coin a gold coin other than the sovereign. There have been recommendations, or rather representations, to which some weight is to be attached, that such a coin would be popular and would serve purposes that a sovereign does not serve. Sir Vithaldas Thackersey in 1911 made a speech,* which I daresay will be brought to your notice, in which he said that a smaller coin, and an Indian coin, might be more popular. That I think is one possible advantage, more especially since his view has been supported in various quarters. I remember Mr. Webb, who is a well-known writer on this subject, wrote to the Secretary of State once urging that there should be a specific Indian gold coin. I imagine that he was voicing the opinion of a certain number of persons in India with whom he came in contact. I think if I could remember them, there have been others who have represented that the 10-rupee piece would be fairly popular. I believe that the Government of India thought that there would be some demand for it, so that one advantage would be the introduction of a more convenient form of coin.

1125. Is that an advantage which is dependent on the establishment of an Indian mint? Would it not be possible to have an arrangement with the mint here that they should coin whatever gold coin India required?—Yes, that would be possible. I think the advantage I was just mentioning merges very much into the one that I was about to mention: it has been said to me by friends of mine who have some experience of Indian feeling, that certain sections of Indian feeling, perhaps a very large section, would be much gratified by the opening of a mint for the coinage of gold in India. Personally, I find it a little difficult to understand what personal gratification it would bring to any Indian to know that his country had a gold mint as well as a rupee mint, but I must take the fact as it is given to me, that some gratification, it is alleged, would be caused by the opening of such a mint.

1126. So that in your opinion the advantage would be really rather the satisfaction of sentiment than any concrete gain?—Yes.

* Not printed (pp. 43-6 of Report of Examination of Sir Edmund Walker, Kt., C.V.O., before the Banking and Commerce Committee of the Canadian House of Commons re Bill No. 36 (Banks and Banking), April 16-17, No. 40,341-1, Ottawa Government Printing Bureau, 1913).

* See H.C. 155 of 1911, page 306.

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1127. In paragraph 22 of that same despatch, No. 59, on page 61 of H.C. 495 of 1913, the Government of India, whilst disclaiming any idea that the coinage of gold in India will be a panacea for all Indian currency ills, add: "Indeed we do not imagine that its influence will be greatly felt at first; but such a measure will mark a step along the path which has been authoritatively accepted as the line on which our currency policy must develop, and in time it will be of great assistance in maintaining the stability of our currency system." Can you develop that idea for me a little?—I think what the Government of India would say is that when there were many more sovereigns than at present and fewer rupees making up the total circulation in India, the danger of a fall in exchange would be less than it now is. I cannot say that the argument appears to me to be extremely convincing, because I think it overlooks the fact that the reason why the Indian exchange tends to fall under present conditions is mainly that India is a debtor country, and that from time to time, if trade goes against her, she finds a difficulty in paying her debts abroad. If she had a gold currency she might have to export her currency if the holders of it were willing to let it be exported; but if she did that there would still be the fall in exchange that there is at present. The idea that you prevent a fall in exchange by exporting your currency seems to me to have very little foundation.

1128. The great advantage of the proposal in the mind of the Indian Government is that it would increase the number of gold coins in circulation?—Yes.

1129. And also increase the proportion of gold in India as compared with silver?—Yes, but the reasons for holding that opinion are not very clear or strong.

1130. Apparently it is not anticipated that it will cause gold to flow into India?—No.

1131. But that it will bring gold out of hoards, or out of the bullion condition into the coined condition?—Yes.

1132. You have spoken on more than one occasion about the issues of gold to the public in India. In paragraph 9d (b) of Appendix III. (page 90), speaking of the course of events of 1907-8, you say "It will be seen," from the tables that you print, "that the sovereigns held in Government treasuries and reserves in India decreased between September 1907 and December 1908 by 4,394,000*l.* of which 215,000*l.* represented light coin sent by the Government of India to the Secretary of State, and the remainder (4,179,000*l.*) issues to the public in India." The export on private account which you are dealing with in that paper during that period was only about 250,000*l.* Have you any theory as to what became of the rest of those sovereigns?—I imagine that they went the way of many other sovereigns, and of the gold in other forms than sovereigns that is continually being imported into India. No doubt a certain number of them may have remained in circulation, but I think that hoarding and melting were probably the destination of the majority.

1133. If they were hoarded as sovereigns, it is of course possible that the expectation of the Government of India might be realised, that in times of need they would be tempted out again?—I think that the expectation of the Government of India was that they would be tempted out again, and then they would in some way serve to support the exchange value of the rupee. It is the second part of the expectation which seems to me to be a little doubtful.

1134. But if they had been melted down there would have been no advantage in having them coined, and they might just as well have gone in straight as bullion?—That is so.

1135. Is it possible to frame any reasonable expectation of what would happen if you minted more sovereigns or more gold coins in India? Is it possible to frame any sort of hypothesis as to the proportion which would be melted down?—No. I should say that if gold in India was brought to be coined into sovereigns, the presumption is that it would remain in the form of sovereigns. If a man wanted gold he would not go through the process first of all of sending the bullion to be coined, and then of melting

the coin so as to put it back into bullion. I should say that the danger is, if I may hazard a conjecture, that since the owners of bullion in India who hold it in that form do so because they prefer it in that form, they would continue to do so even if there were a mint for the coinage of gold in Bombay; and that the mint would probably do very little business.

1136. Of course the same man would not at approximately the same time be bringing bullion to the mint to be coined and then melting down coin into bullion?—No.

1137. But the coin that was minted from the bullion brought to the mint by one man might be melted down by another man into whose hands it shortly passed?—Yes, that is possible, and then there would be waste.

1138. And there would not be that increase of coins in circulation which the Indian Government hope to see?—No, clearly not.

1139. In itself do you think it is an advantage to increase the number of gold coins in circulation, provided that there are already sufficient to meet the natural desires of the public?—The difficulty of answering that question is that if there are as many as the public desire, then you cannot increase the number. If there is a public demand for sovereigns which is not fully satisfied, I think then it is an excellent thing to do what can be done to satisfy the demand.

1140. I understand your governing principle is that it is the business of the Government to provide what the public desire?—Yes.

1141. If they want gold coin let them have gold coin, and if they want silver let them have silver?—Yes.

1142. Have you any reason to doubt that that is what happens now?—No. It is to be noticed that the public demand for sovereigns does increase very rapidly year by year, and a time might come when the demand is larger than could be satisfied from the stock at the disposal of the Government. Then it is just possible—I merely put this because I wish to be fair to every side in this controversy—that the existence of a gold mint in Bombay might enable the holder of bullion to get sovereigns by the coining of his bullion, which otherwise he might find it difficult to get.

1143. In this despatch (page 57 in H.C. 495 of 1913) the Government of India propose to make their gold coin a sovereign. I think I am right in saying that included in the papers are a letter from the Treasury to the India Office explaining the difficulties of that proposal, and a letter from the Secretary of State in which he seems to think it likely that the Government of India will not approve of either alternative presented by the Treasury, and in which he observes, "If both are dismissed it will remain to consider whether it is desirable to produce at one of the Indian mints a separate Indian gold coin of the denomination of, say, Rs. 10." Is there any answer to that despatch which we ought to have?—The important communication from the Government of India is a telegram, dated 20th January 1913, in which they say, "As you anticipated," referring to the despatch of the Secretary of State, which you have just quoted, "we do not favour either of the alternatives offered by the Treasury. We therefore, accept your offer to sanction the issue of a separate Indian gold coin of the denomination of Rs. 10. We will submit our proposals as to details of the coinage in due course." Then they discuss the dates on which it would be desirable to make an announcement, and that perhaps I need not read. I ought to mention, so as to avoid misunderstanding, that that telegram was sent before it had been decided to appoint this Royal Commission. On the 24th January, 1913, the Secretary of State suggested that, before any final decision was taken, the usual procedure for eliciting public opinion in India should be followed. Again he returned to that point in a subsequent telegram, and the discussion to which those suggestions gave rise ended with a statement from the Government of India as follows, dated 10th April, 1913:—"In your telegram of 14th February we were informed that the

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"Royal Commission would inquire *inter alia* into Indian currency administration. The possibility of a decision being arrived at on the question of gold coinage independently of a Commission was therefore never anticipated by us. It is assumed generally by the public in India that the question will be left for the Commission to decide, and we are of opinion, after full consideration, that this is the only possible course now. Ample opportunities for ascertaining the opinion of representatives of the commercial public in India will no doubt be given to the Commission." That telegram came as the reply to the Secretary of State's inquiry as to what detailed steps should be taken to elicit public opinion in India, and you will see that in effect the Government of India said, We will do nothing at present; we will wait until the Royal Commission has considered the matter.

1144. The present arrangements have secured a stable exchange between India and other countries?—Yes, between India and gold-using countries.

1145. In that respect we have all the advantages of a gold standard?—Yes.

1146. Those advantages have been secured without the existence of an extensive gold currency in India?—Yes.

1147. Some people would say, and apparently Sir Edmund Walker, to whose evidence you alluded, would say that the most admirable system you could have was one in which your gold was in reserve and protected your exchange, and was not in circulation?—Yes.

1148. And would consider that so far from its being desirable to encourage the use of gold in circulation, it was a very uneconomic and wasteful thing to do?—Yes.

1149. Is that, on the whole, your view, subject always to your governing principle, that after all it is not a matter for Government to decide, and that the public must have what they want?—Really, the reiteration of that principle answers the question. I see no disadvantage to India in the use of gold, and I see no advantage to India except its convenience. I understand that with the people who do not readily take to the use of notes, as is the case with the inhabitants of some parts of India, but not the majority of India fortunately, the gold coin is a great convenience. Of course I agree with the view held, I think, by most persons who consider currency questions, that the ideal form of currency is a note currency; but one cannot expect India to be much ahead of England in such a matter, and in England, as you know, notes are a very unimportant part of the currency.

1150. (*Sir Robert Chalmers.*) The chief part of the currency being the cheque?—That is so.

1151. (*Chairman.*) Of course, a cheque is very similar to a note in some respects?—Yes.

1152. (*Lord Faber.*) In an answer given by you to the Chairman, you expressed the opinion, I think, that the export of gold coin or bullion would not stop a fall in exchange; is that your considered opinion?—It would not prevent a fall in exchange, because it would be brought about by a fall in exchange. So long as a country was losing its gold by export, its exchange would be *ex hypothesi* at or below the gold exporting point.

1153. Would not the fact of exporting bullion, and, therefore, not using exchange at all, tend to a jumping up of the exchange again?—It would tend to restore the exchange, but it would not tend, I think, to prevent the exchange from falling to the gold exporting point. The reason that I mentioned it is this: Everyone knows that in India we have methods—for instance, the sale of these bills of which you have heard so much—for preventing exchange from falling below a certain point, that is to say, the point at which we sell the bills; and, from what one reads in newspapers and elsewhere, one gathers that the opinion is held that if gold were very largely circulating in India, there would be a more effective method of achieving the same object, and that the exchange would necessarily be stopped in its fall at a higher point. I wish to mention—and that is why I made my remark—that I do not think that those opinions are well founded.

1154. (*Sir Robert Chalmers.*) Respecting the hypothesis that there would be an Indian mint coining gold, and gold of an Indian denomination, did you contemplate seigniorage; what would be your view on that subject?—I have no very strong view about it at all. When the sovereign was proposed, you know, it was proposed to have no coinage charge. If you have time to read the whole correspondence you will see that there was a discussion with the law officers as to whether it was possible to have in an Indian branch mint an arrangement similar to that at the Royal Mint, and differing from that which prevails in Australia. After much consideration it was decided that the Royal Mint arrangement, under which there is no charge, was possible even in a branch mint, though there is at present no branch mint which does not make a charge. When the question came of a 10-rupee gold piece instead of a sovereign, the point regarding the charge was a new one, and Lord Crewe, in his despatch, asked the Government of India to let him have their views as to whether there should be a seigniorage or not.

1155. Have you got their views?—No, we have not got their views. I feel with regard to this, as with regard to many other of the questions which arise about coinage, that points which are of very small importance are considered in some quarters to be very important. I do not see that there is very much importance in the question whether there should or should not be a small seigniorage on the coinage of a 10-rupee gold piece.

1156. It would have this effect, surely, in the domain of ordinary finance that a seigniorage would represent a charge covering the cost of turning bullion into the form of coin, and therefore any operations in the way of setting up a gold mint in India for coining gold coins would tend to be self-supporting instead of being an entire loss to the taxpayer?—From that point of view the importance is clear, but I think that the critics to whom I refer had souls above considerations of loss to the taxpayer.

1157. It is generally understood, is it not, that the cost of minting, and so forth, may be taken at about $1\frac{1}{2}$ d. an oz.?—I think so. That corresponds to the Australian charge fairly well.

1158. If you have got a seigniorage charge, by export of the coins so minted you lose what you have paid for?—Yes.

1159. And so far there would be a tendency to keep the gold coins on which seigniorage had been charged in the country?—Yes.

1160. Seigniorage is generally charged in all countries, is it not?—This country, I believe, is generous owing to the influence of the Treasury, but other countries, I think, usually charge a seigniorage.

1161. The general body of precedent would be in favour of a seigniorage charge?—Yes.

1162. And that was imposed by this country under the Coinage Act of 1870 for the branch mints in Australia?—It was not imposed—it was allowed, and then the permissive power was exercised.

1163. Take again the hypothesis of the Indian gold coin; it would be of the greatest importance, would it not, that the fineness of those Indian coins should be the same as the sovereign, $\frac{11}{12}$ ths, so that they could exchange by weight?—I should think so. Of course there are differences of fineness between Indian and English token coins, but then the same considerations do not apply.

1164. If you have no sovereign coined in India, the ordinary method of settling international balances would be by bullion, would it not?—No. You ask, if you have no sovereign coined in India?

1165. Is not bullion the normal international medium of exchange, is not coin only a substitute for that?—It is a very usual substitute, and a very convenient one; but the normal method, I should say, as between India and the rest of the world, is by the use of this machinery that the Government has set up, in fact by the use of what, in the widest terms, one would call credit instruments.

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1166. Do you think there is any popular demand in India for a special gold coin of its own; do you think there is any national sentiment in that direction?—Even those who are on the spot in India are certainly liable to make mistakes on the subject, as I should like to illustrate in a moment, so that I, not being there, cannot give an opinion. There is a very curious illustration of the difficulty of gauging Indian sentiment in this matter. In this White Paper which was published at Mr. Touche's request (H.C. 495 of 1913), the Government of India were very emphatic. The Secretary of State asked whether Indian opinion ought not to be ascertained. In a telegram of 18th May 1912, on page 63, the Government of India said: "We have not obtained opinions of the bodies you have mentioned. Matter has been twice subject of debate in Imperial Legislative Council, and during past year has been discussed vigorously in Press, and by commercial interests in India and England, therefore do not think it is necessary to collect further opinions." Then in the same spirit they say, on page 62, paragraph 25, "Our proposal for a gold coinage has behind it the overwhelming support of Indian public opinion, the leaders of which are ready and anxious to extend the everyday use of the common coin of the Empire, and are unable to understand why India should be denied the same minting facilities as have been given to Australia and Canada." In view of all that, the Secretary of State was surprised to some extent when about two days after the publication of this book he received a telegram from the Calcutta Chamber of Commerce mentioning their pain at not having been consulted, and I think they traversed there the statement that there was behind this proposal the overwhelming support of Indian opinion, and in a meeting of the Calcutta Chamber of Commerce some views controverting this statement of the Government of India were expressed with some freedom.

1167. If there was not a national feeling, if I may so call it, in favour of a distinctive coin of Indian manufacture, would you say that on merely economic grounds there was any justification for the spending of any money on the coining of gold in India?—No. I would certainly say that in the absence of this sentiment that there is no justification for spending what would probably be about 16,000*l.* a year at least.

1168. (*Sir Ernest Cable.*) When the Fowler Committee recommended the institution of a mint in India, do you happen to know whether there were many sovereigns going out to India at that time?—There were very few. I think you will find somewhere in the Committee's report that they mention that when they wrote, three million sovereigns. I think, had gone to India. I am not sure if I have the exact figure, but at any rate it was a trivial amount compared with what has since gone.

1169. So it might be a legitimate inference from that that if they had anticipated the large sums in sovereigns that have gone out recently they might have reconsidered that recommendation?—Your point has been anticipated by the Treasury. You will notice in this correspondence that was published, the Treasury said that the object which the Fowler Committee had before them seemed to have been achieved by other means which they did not anticipate.

1170. It has just come out in evidence that Canada is a case where the mint is not really wanted?—I believe opinions differ, but there are authorities who hold that it is not wanted, and that it might well be abolished.

1171. The case of Australia seems to be different, for its three mints have been largely used, have they not?—I believe only a comparatively small proportion of the gold which is produced in Australia is coined, but I am not quite sure. You will have seen in some of the statements that I gave that two of the mints in Australia coin about two million sovereigns a year, and the other one about four millions.

1172. Is that entirely from local production?—Australia coins about nine million sovereigns a year, and I rather fancy that its gold production is more than that.

1173. But it is got entirely from local production?—Yes.

1174. It follows from that, does it not, that if the Mysore gold mines did not want a mint in India, that would be a powerful argument against it. Do you happen to know their views about a mint in India?—I think I read out yesterday what was stated in 1902 as to their feeling and their practice (paragraph 3 (v) of Appendix VI., page 213), and I have no reason to think that they have in any way altered. I should think generally it would be more convenient to the Mysore mine owners, when they have the unrefined gold ready, to send it to England than to dispose of it there.

1175. They would be not likely to use the mint perhaps even if it was put up?—They might or might not. It cannot make very much difference to them, because they have to send the greater part of their production home, naturally, because it belongs to their shareholders. So that if they had their gold coined they would buy exchange on London, I presume, out of what was left after paying their wages bill; therefore, I do not think it would matter much to them.

1176. (*Sir Robert Chalmers.*) If there was a seigniorage it would deter them?—Yes, if there was a seigniorage on their 10-rupee piece, I suppose it would.

1177. (*Mr. Keynes.*) Are half sovereigns legal tender in India?—I think they are. I daresay you have the Coinage Act. I think that the words of it are "sovereigns and half-sovereigns coined at any mint or branch mint."

1178. Is there any evidence of half-sovereigns being popular?—I do not think so. I remember to have seen—I forget whether it was in an official paper or in an unofficial one—some statement which rather impressed me that they were not popular; but I am sorry to say that I cannot at the moment recollect who was the authority. I thought at the time it was a good authority; that is all I can say.

1179. The fact, therefore, that an Indian gold coin of 10 rupees would be rather smaller in face value than a sovereign, is perhaps not much reason for thinking it would be popular; or do you think it is?—No, I do not think it is much of a reason.

1180. If there was a demand for a smaller gold coin, half-sovereigns might have been used?—Yes.

1181. With regard to the terms of mintage, there is no seigniorage at the Royal Mint, but sovereigns are not given on demand in return for bullion, are they?—No; there is a seigniorage in time, but not in money.

1182. And the mint rather discriminates against private persons in the matter of quick delivery?—That I did not know.

1183. It is the case, anyhow, that the ordinary seller of bullion finds it worth while to sell gold to the Bank of England at 1½*d.* an ounce less than the par value?—That is a well known difference.

1184. So that there is in effect a discount of 1½*d.* an ounce in England normally?—Yes.

1185. Which corresponds to the seigniorage which is charged in Australia?—No.

1186. In amount?—It may be in amount.

1187. I mean simply that the price of sovereigns in terms of bullion is less than the par value by 1½*d.* an ounce, both in Australia and in England?—I think you are assuming that there is immediate coinage in Australia. If it be the fact, and I cannot say, that besides actually imposing a charge of so much an ounce in Australia they keep the owner of bullion waiting for 60 days, or whatever it may be, then the ratio between bullion and sovereigns would be different in Australia from what it is here.

1188. It might be more than that?—Yes.

1189. If the mints in India were to charge no seigniorage, and were to grant quick delivery, they would be giving more favourable terms than can usually be obtained in England?—Yes.

1190. So that if that were the case it might be worth while for those who wished to remit gold to India to send out bullion and get it coined there, because they could get it coined more cheaply than in England?—Yes.

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1191. They might even do that if the sovereigns were ultimately intended for some other destination in the East than India?—They might. Of course the saving on account of the effective payment made in England which they would avoid by sending their bullion to India would be so small that I should scarcely think they would take so much trouble, if the destination of their sovereigns was some place outside India.

1192. If the Indian authorities were to offer rather better terms than are usually obtainable in England, that would make a great difference to the likelihood of gold being brought to them?—Quite so.

1193. Do you think it is desirable that they should get better terms than are given in England?—It had not struck me that the matter was one of great importance; and also I should say that they would not get materially better terms.

1194. I was not asking about the fact; I was asking whether you thought it would be a good thing that they should. You say it is not of any significance?—I do not think it is of any significance either in itself or on account of the difference in the terms that it is likely would take place.

1195. If there was a difference of 1d. an ounce, do you not think that would make an appreciable difference to the amount of gold bullion sent to India for coinage?—I do not think so. I may be wrong, but I do not see that there is any great importance in it, either practically or theoretically.

1196. I understand that you take the view that the Government of India ought to take a purely passive part in the supply of currency, supplying gold and silver according as the public want it?—Approximately that is my view; I might use a slightly different adjective.

1197. Is it possible for the Government to take a purely passive view? Is it not necessarily within their discretion and power as to whether it is easy to get gold in remote parts of the country? I am thinking of such circumstances as that of the Government giving facilities outside the law for the encashment of notes when it is not inconvenient to the Government. In these circumstances it is within the power of the Government to give facilities for the encashment of notes into gold or only into rupees?—Yes.

1198. So it can make gold more or less easily obtainable?—In a sense you are putting to me the questions that I might have put to you. You began by using the word "passive," which I did not think exactly the right word, but I did not like to contest it. Now you are proving, I think, quite conclusively that it is not exactly the right word, but that the Government necessarily takes some slight share in turning the disposition of the people into one channel or another.

1199. Yes?—There I agree with you; and that was at the root of my demurring to your particular adjective—I think that we are at one.

1200. Similarly they can make notes more or less convenient; they can be at pains to make the notes popular or not?—Quite so.

1201. Within these limits, do you think that the Government would be wise to encourage the greater use of gold?—I think they ought to proceed with as much passiveness as is compatible with intelligence. Of course I, being in a very humble way an academic student of economics, like a note circulation better than a gold circulation, which is probably the case with you; but if people in India rather prefer gold, or if people in the Punjab, as you know is the case, rather prefer gold to notes, I think the Government ought not to be at any great pains to put difficulties in the way of their getting gold. I think that the Government might be at some pains to make it easy for them to get notes, or even to explain to them the advantage of notes; but it is rather by way of pushing one form of currency than by putting obstacles in the way of getting another form of currency that the Government should exercise such discretion as it does exercise.

1202. I believe, it is the practice of the Government, is it not, to sell remittances at a small premium for remote parts of the country?—I do not

know if it is to remote parts; I think it is rather to big trade centres up country.

1203. Do you think it would be a good thing if the Government made such remittances freely available in terms of gold?—I like the idea of the Government saying, Money is money; if you have remittance due to you we will meet your convenience as far as possible, but we will not make separate bargains regarding gold money or note money or rupee money. That, I think, is the right position for the Government which has a currency such as India has.

1204. I do not clearly follow your position. You say that the Government would be right to popularise a note issue by making notes very convenient and by explaining their advantages, but you think it would not be right for the Government to take similar steps with regard to gold?—I say it would not be right for the Government to place obstacles in the way of the circulation of gold.

1205. That is another point. Do you think it would be unwise of them to attempt actively to popularise gold in the way in which it would be right for them actively to popularise notes?—I should like to minimise that distinction. I think really that I agree with you.

1206. I have expressed no opinion?—I think I agree with the opinion that I seem to read in your mind; but my agreement, I think, largely comes from the fact that in respect of gold I fancy there is a considerable demand for it from some parts of India, and that demand is so strong that it needs no encouragement; and that in other parts of India there is an indisposition to take it, and it would be waste of trouble to try to produce a disposition to take it. I think, in fact, if I may summarise it, that the note habit is a much more teachable habit than the gold habit. It is much more, I think, a matter that can be altered by education.

1207. (*Chairman.*) If you were the Indian Government you would, I understand, desire to meet the wishes of the people as far as it is conveniently possible?—Yes.

1208. Would you prefer that they should ask you for notes, or that they should ask you for gold?—That they should ask me for notes, certainly.

1209. (*Mr. Keynes.*) I pass on now to a different point. If 20 million sovereigns in addition to those which are used at present were to get into circulation in India in place of notes or rupees, that would be at the expense either of the gold standard reserve or of the paper currency reserve?—Yes. That is a very brief statement, and I think that it might conceivably be misunderstood; but I think I agree with you as you put it.

1210. Do you think that the effect of this change, that is to say, of 20 million more sovereigns being put in circulation and a somewhat smaller gold standard reserve or paper currency reserve would be to make the Indian currency system more or less stable than it now is?—My own view—I know it is a very controverted question—is that an addition to the gold currency at the expense of the gold standard reserve would make the exchange less stable.

1211. So that would be a strong reason against wishing the people of India to take gold rather than notes or rupees?—It would be a strong reason if the difference in stability were considerable. I do not think that now or in the immediate future, or, indeed, in the future at all, there is much instability in the Indian currency system, and especially in its foreign exchanges; so that I do not regard the matter which you are discussing as one of very great importance. I should so regard it if you had been discussing it when the gold standard reserve was 10 millions or 15 millions less than it now is.

1212. I put it in this way, therefore, that when your reserves are adequate to meet all emergencies you can then spend all your resources on having a gold currency if you like without injuring stability?—We have come back to that. I think, practically, I said that almost in those words at a much earlier period of my examination. I forget in answer to whom, but I think I did say it.

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1213. I put the point for this reason; the main argument usually urged against a gold currency as distinct from a gold standard is that it is uneconomical; and you would accept that, I imagine, and so would most of the advocates of a gold currency?—Yes.

1214. But the advocates of a gold currency go on to say: It may be more expensive, but it gives you something which is more stable, and is worth the extra expense?—Yes.

1215. I understand that your opinion is, that, so far from making the position more stable, it will make it a little less stable, but if you had already got good reserves that would not be a matter of very much moment?—You have summarised my view with complete accuracy.

1216. Therefore it would be an uneconomic thing to do, and would not assist stability?—Yes, but it would not matter very much.

1217. It would not matter very much if stability was insured in other ways?—Yes, that is so.

1218. (*Sir Shapurji Broacha.*) There is a great sentiment for establishing a mint in India?—So it is alleged.

1219. And the Government are willing to give in to that sentiment so far as the Government of India are concerned, according to the correspondence?—Pardon me; if you are setting up a difference of opinion between the Secretary of State and the Government of India, that I do not think exists.

1220. They are both the same, and I did not mean to imply that there was any difference at all on that point. Supposing they are willing to meet that sentiment and to have a mint established, what gold will go into that mint? Here 3*l.* 17*s.* 10½*d.* is the value of 1 oz. of gold, is it not?—Yes.

1221. 3*l.* 17*s.* 10½*d.* is equal to 934½ pence or annas?—Yes.

1222. If you take an ounce of gold in a solid bar to India, that ounce of gold will cost you 1 per cent. for freight?—I take that from you; I do not know.

1223. That would be about 9½*d.* per ounce?—Yes.

1224. Suppose that gold is sent to the mint, it will cost an additional 10 days' interest, just as it costs here?—Yes.

1225. That will be equal to about 11*d.* or 12*d.* on the ounce of gold?—Yes.

1226. That will only give you 923*d.* when the sovereign gives the owner 934½*d.* Therefore, taking it from an economic point of view, is it not a waste of money to establish a mint? Will you take gold bars from this country, send them to the mint and only receive 923*d.* per ounce, when if you take the ounce of gold into India in sovereigns you would get 934½*d.*? No merchant or banker would do that, would he?—I should like to follow your calculations.

1227. Taking the ounce in sovereigns as producing 3*l.* 17*s.* 10½*d.*, that ounce will cost you 1 per cent. to take it to India?—That is where I am not sure that I follow you.

1228. (*Chairman.*) Assuming Sir Shapurji's figures to be correct, do you agree with his conclusion?—No. My difficulty is that Sir Shapurji seems to allow for the cost of freight on the gold but not on the sovereigns.

1229. (*Sir Shapurji Broacha.*) You may take it from me that it will cost you 1 per cent. to take an ounce of gold out there, and that will be equal to 9½*d.* on 934½*d.*, to which you will have to add 10 days' interest while it is at the mint. As a commercial transaction who will take that ounce of gold in bars to be coined in India and receive 923½*d.* instead of 934½*d.*, which he would get if he took gold which was already coined into sovereigns?—I see a difficulty there, but I do not wish to dwell much upon it.

1230. Nobody would do it as a matter of sentiment and suffer that loss, would he?—If you are going to charge your bullion with this 1 per cent. for freight and insurance you ought to charge your sovereign equally.

1231. The price of the sovereign in India is 15 rupees?—But ought you not to assume, to make it all square, that the bullion is in India too? Why assume that the bullion is imported into India for this purpose and bears the charge of 1 per cent.?

1232. If I buy bullion and send that bullion to the mint to be coined, that bullion will cost me 15 rupees 2½ annas before I receive it in the shape of the sovereign; who would pay 15 rupees 2½ annas for a sovereign when he can buy a sovereign for 15 rupees?—Now, if I may say so, I think you have put it on the right basis, because you have eliminated the differences.

1233. If it would cost 15 rupees 2½ annas to turn bullion into a sovereign, while I can buy a sovereign outside at 15 rupees, commercially no one in India would send any bullion to the mint; therefore from which country will bullion come to India for coinage?—I agree with what is evidently in your mind. I do not think bullion would go to India for coinage, and I am bound to say that the Government of India has held that view.

1234. Last year 31 millions of gold went to India, 19 millions in sovereigns and 12 millions in gold bars. Those gold bars would not have gone to be coined because those gold bars would have cost about 13*d.*, gold bars being dearer even than bullion; therefore none of that 12 millions would have gone for coinage?—I agree. The view that bullion would be converted into sovereigns to any large extent has never commended itself to me.

1235. So whatever bullion comes to be coined will be either from Indian gold mines, or because some gold is brought out from the hoards?—Yes.

1236. I am told that the mines in India have sold ahead to London the gold bullion, as you can see from the Governor-General's letter in 1902, on page 56 of H.C. 495 of 1913, when the projected mint was given up.* I am not against a gold mint in India, but I say the machinery will have to be scrapped in five years. Do you know that sovereigns would be even cheaper coming from Egypt and from Australia in comparison with gold bullion coming from London?—Yes; that of course is a familiar fact to us.

1237. Of course a gold mint may be erected in India for the satisfaction of sentiment, but I do not see where the gold is coming from?—That is my difficulty—how much business will the gold mint do.

1238. It may be said that India prefers gold in 10-rupee pieces, but is there any data for that?—No.

1239. But there are plenty of data for a sovereign?—Yes.

1240. The sovereign has been coming into India not merely since the mints were closed but since the British Government has been established, and they have been bought as cheaper gold?—Yes.

1241. So sovereigns are more familiar than 10-rupee pieces. According to what you have placed before us, out of the 19 million sovereigns which went into India last year 15 millions went into circulation, that is, into the people's pockets?—Yes.

1242. If four-fifths of the sovereigns that you take there are taken by the people how can you compare it in popularity with this other coin; there are no data to go upon, are there?—No; there is absolutely nothing to go upon, as you say, except prediction.

1243. Then comes the difficulty which the Chairman has pointed out to you about sending out gold for the trade balance. If you send out 10-rupee pieces in gold they will be taken at the cost of bullion, and not at what they would cost to coin, so there will be another loss there?—Yes.

1244. If I take five sovereigns to the Continent I have to suffer the loss in exchange?—Yes.

1245. Then in addition to that the 10-rupee piece will be a different coin to any in the whole Empire. So if Mr. Webb sends us a message that the Karachi chamber requires the 15 rupees sovereign and not the 10 rupees gold coin, which is the latest message, is it in any way desirable to have the 10-rupee gold coin? Nobody knows about the sentiment in favour of it, because it has never been used, only two or three people on the Legislative Council have said that it would be popular. How could they make it popular

* The relevant part of this letter is quoted in paragraph 3 (v) of Appendix VI. to this Report, page 213.

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when the sovereign has been popular to my knowledge—and I am a broker of 49 years' standing—and is preferred to any other coin?—The 10-rupee piece will be much cheaper to coin.

1246. How do you make that out?—That is an important point. If we had a 10-rupee piece we should just tell certain operatives in the Bombay Mint to go and coin it when they were not coining anything else; whereas if we had a branch mint for the coining of sovereigns, as you will have seen from the Parliamentary Paper (H.C. 495 of 1913), we should have to have a separate mint with a separate deputy mint master and an assayer and a deputy-assayer and a chemist, and quite a large number of officials who would be doing very likely no work all the year round but would be drawing their salaries all the year round.

1247. I think the gold coins will cost you something?—Still, it is one thing to let the present mint-master and deputy mint-master and so on be responsible for a little additional work in the mint; it is quite another thing to let them go on doing their present work and to appoint this very large, expensive, and highly skilled additional staff to look after the gold mint in which it is possible that they would be doing practically nothing. In any case there would be a double set of salaries and working expenses to be paid.

1248. I think it is said that it would save 10,000*l.*, but I think ultimately it will cost 15,000*l.* according to the Mint reports of Australia. It will cost something to make the 10-rupee piece. India may save about 8,000*l.* or 10,000*l.* a year, but I do not think it will be very much, to compensate for the extra trouble in exchange?—There would be a considerable saving in the coining of the 10-rupee piece.

1249. I think, taking a country like India, you should put in figures what would be the saving. I say a saving of 10,000*l.* is nothing. You said that when the crisis came there were 4½ millions of gold in India, of which a quarter million went for trade purposes and a quarter million for light sovereigns, and the remaining four millions disappeared, so that only a lakh, or about 7,000*l.*, was left in the currency for about two years, was it not?—I am not quite sure that I follow your last remark.

1250. For two or three years, when the currency balances came out, there were 1½ millions in the London currency reserve and one lakh of gold in India?—If you mean gold equivalent to a lakh of rupees, I think you are wrong there. I am pretty sure that the holding of gold did not go down to so small a figure as you have mentioned, though I know it did go down very low.

1251. (Mr. Gillan.) It was something quite inappreciable, was it not?—Yes, but it was not so small as Sir Shapurji makes out. On 31st March 1908 there were four crores in gold; on 31st March 1909 there were only 3½ lakhs; and in 1910 there were 9 crores 3 lakhs.

1252. (Sir Shapurji Broacha.) That 4½ millions did not help the trade balance in India?—Not appreciably and directly.

1253. Except the quarter million which you allowed the banks to take from you for a time, and there was nothing left?—You must not overstate it.

1254. What you say is that a large demand for gold in India is better for the support of the balance of trade or for exchange. My experience of India is that so soon as the exchange goes down they sweep away all the gold that you can give them from the Currency Department?—And keep it in hoards, do you mean?

1255. They keep it; Gresham's Law would come into operation at once?—Yes.

1256. I think permission has been given to erect a mint in South Africa, which is the home of gold?—I do not think there is a mint in South Africa; but Sir Robert Chalmers would probably know.

(Sir Robert Chalmers.) There is no mint there yet; there used to be a mint in Pretoria in other days.

1257. (Sir Shapurji Broacha.) You know that South Africa is the home of gold at present?—That is so.

1258. If it were advantageous to them to mint sovereigns and sell them they would have had their mint at once, and it is certain that this Government would not deny them?—That is so.

1259. Is it not rather that India is asking too much, and asking for something that will bring her no gain? I know the sentiment is very great, and I myself have no objection to a mint, but I say it is really uneconomic?—As far as I can judge there is in India a feeling that unless India has a mint she will have been hampered.

(Sir Shapurji Broacha.) I think that feeling is confined to a few men who are articulate.

1260. (Sir James Begbie.) What measures have been taken to carry out the recommendation of the Committee of 1898 that the sovereign should be made a current coin in India?—You are familiar, of course, with the legislative enactment under which the sovereign is legal tender, and with the measures that the Government take to give sovereigns freely at currency offices and elsewhere in exchange for rupees. I should say that that exhausts everything that is of importance. I have no doubt that often when the Government has a payment to make it does make it in sovereigns in the hope that the sovereigns will remain in circulation.

1261. But so far as you know, there have been no special efforts made to encourage the use of gold?—It is really difficult to say what efforts should be made. I think I mentioned in reply to the Chairman, that for a short time in 1900 attempts were made to give people sovereigns when they would have preferred rupees. That statement had been made, and I believe it is not very far wrong. It was found to be a mistake and ineffective, because, naturally, the sovereigns came back. The present policy, which Mr. Keynes calls passive, is, I think, the only practical one.

1262. Sovereigns imported into India are, as a rule, tendered to the Government in order that rupees or notes may be issued in exchange; is it not the case that rupees are full legal tender?—Yes.

1263. And the public have been accustomed to rupees for very many years?—Yes.

1264. That accounts, does it not, for the fact that the sovereigns when imported are presented for exchange either into rupees or notes?—Yes. I merely mentioned it as showing that at the present stage of India's development and the taste for gold, the natural destination of sovereigns imported into India is in the first place to go into the paper currency reserve; but I realise, of course, that it goes out again afterwards.

1265. If some of them are sent up into the districts in the interior of India it is very difficult, is it not, to get them exchanged? The only place, I think, where they can be exchanged at par is at the Government treasury, and very often that is some distance off, as there is only one Government treasury in a large district?—I gather from the reports of the Paper Currency Department that the difficulty of getting a sovereign exchanged without paying for the exchange is very slight, and that in that respect a sovereign is more convenient to a holder in a country district than a note, because you usually do have to pay a trifle to get a note changed, but you do not have to pay a trifle to get a sovereign changed.

1266. That remark was made, I think, with regard to special districts, was it not?—I dare say. I read it a short time ago, and I thought then it was of general application.

1267. Do you not think a sovereign is a high unit for a gold coin in India?—Yes, and I should say that is one of the reasons why there is not so much substance as might appear in the doctrine that India ought to become much more than it is a sovereign-using country. I think there has always been that natural limitation to the use of the sovereign in India that is implied in what you have said.

1268. Do you not think the fact that sovereigns have been absorbed so largely in recent years shows that gold coinage is suitable for India?—Yes, certainly. It shows that people in India are glad to have gold in India at their disposal.

1269. Might not a gold coin of smaller denomination than a sovereign be reasonably expected to extend

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the use of gold amongst a more numerous class of people?—One can never tell. In a matter of this sort what one would like to know is the answer to the question that is always asked: Is there a desire for a 10-rupee piece or other such gold piece in India? Is there a popular widespread desire? But then no one knows the answer to that question; at least I think not.

1270. I think you made the remark to-day that the gold in circulation is of very little use in supporting exchange; but for that purpose it is to be preferred, is it not, to token silver coins?—Yes. If token silver coins are not backed by either a central Government reserve or a banking reserve, they are of no use whatever for the support of exchange, except of course as bullion.

1271. (*Sir Robert Chalmers.*) Do you really maintain that sovereigns in waistcoat pockets really are a support to exchange?—No. Sir James was putting to me the question whether I had denied that they were a support to exchange, and I think we have got to this point, that in my view they are a very slight support to exchange, but they are not so useless for the purpose as overvalued tokens.

1272. The experience of 1907 would appear to show, would it not, that given a fall in exchange you would lose gold rather than derive any support from it for exchange?—Yes. That experience, so far as the export figures go, would appear to show that about 6 per cent. of the gold that we lose does serve to support exchange.

1273. Only 6 per cent.?—Yes, but the other gold possessed by the Government might have afforded indirect support. I do not want to go into that unless the members of the Commission may desire me to do so, but I think Sir James understands, just as you understand, that my general position in the matter is to minimise the importance of the gold in actual circulation for the support of exchange. I think you understood, Sir James, that I was minimising it?

1274. (*Sir James Begbie.*) Yes, but I understood also that you rather favoured the extension of the silver coinage?—No. Perhaps you would explain in what connection?

1275. In this connection; the great trouble in Indian exchange arises from the fact that there is such an enormous volume of token coins in circulation?—That is a view which has often been put forward, but which I find the greatest difficulty in accepting. I think the connection between the volume of token coinage and the stability of exchange is very remote, as indeed is shown by the fact that now at this moment the token coinage is of greater volume than ever before, and I think one might almost say that exchange is more stable than it ever has been. According to my view, as I tried to put it in answer to another member, the stability of the exchange depends on trade conditions, and the trade conditions may be affected, I admit, but are slowly and indirectly affected, if at all, by changes in the volume of currency.

1276. (*Sir Robert Chalmers.*) Do you mean external conditions?—I should apply it both to external and to internal conditions, but I venture to say that it has more application to external conditions.

1277. (*Sir James Begbie.*) Of course I quite understand that at the present time the quantity of popular silver coinage in circulation does not affect the question of exchange; but in a time of unfavourable trade balances, when the balance of trade goes against India, the question of the quantity of silver coins becomes a serious matter?—I do not wish to set up a special doctrine of my own, but I do maintain that the importance of the mere magnitude of the token currency for the purposes that you mention is habitually exaggerated even by many authorities for whom generally I have the highest respect.

1278. The question of the half-sovereign has been mentioned to-day; that in India is valued at $7\frac{1}{2}$ rupees, as you know, I think?—Yes.

1279. Do you think that that is a suitable value as a unit for a gold coin?—Do you refer to the fact that it is a broken sum?

1280. Yes?—I cannot tell; you know much better than I do.

1281. It is very little used, as a matter of fact?—It may be that the fact that it is for a fractional multiple of the unit may be one of the causes of its not being used; I do not know about it.

1282. The fact is that it is a very awkward unit of value, and therefore it is not so much used?—I take that from you.

1283. Another point mentioned to-day was the question of sovereigns coming in from Australia or Egypt; of course these would come in much cheaper than from England?—Yes.

1284. But the quantity obtainable in Australia and Egypt is limited?—Yes. It varies enormously year by year; sometimes Australia has many million sovereigns to part with, and sometimes very few.

1285. (*Mr. Gillan.*) I think there was a discussion at one time, was there not, about the advisability of importing half-sovereigns?—Yes, there was what we call in the India Office a demi-official discussion, I think, between Sir James Meston and myself. At that time I think Sir James Meston was rather in favour of importing the half-sovereign; I was against it.

1286. I did not know exactly what form the discussion had taken, but on the whole the conclusion was, was it not, that there were reasons against large imports of half-sovereigns on the ground that there were many light-weight half-sovereigns, and that they would lose more by use in India and so on?—There were those considerations. Then there was a further rather general consideration that on the whole the Government had better not enlarge its functions by becoming an importer of gold coins, and that it was better that gold coins should be imported by other people. Then there was another consideration which may sound unpractical, but really I think it is very practical. It was suggested at first that it would be worth trying the experiment to see what became of half a million or a million half-sovereigns if they were imported into India. I felt very strongly when I took part in this demi-official discussion that it was no good trying the experiment unless you could judge the results. If at the beginning of a year you put a certain number of half-sovereigns into India, there is no reasonable chance of your being able to find out at the end of the year what had become of them. It is a subject on which inquiry of any value could scarcely be made. Finally, I may mention this, in case you are interested in it. We got some of the exchange banks which import British gold coins to undertake to import some half-sovereigns as well as sovereigns—hitherto they had imported boxes of sovereigns. I think they have imported half-sovereigns, but I have read somewhere, I forget where, they are not popular.

1287. I take it that the imports of half-sovereigns into India in any case have been exceedingly small?—Yes, but they probably have been growing.

1288. Have you any figures to show how many half-sovereigns have been available in India, supposing the people wanted them?—No. The trade figures show the British gold coins, sovereigns and half-sovereigns, mixed up.

1289. I only asked that because an inference was based on it regarding the popularity of the half-sovereign, and I did not know to what extent they actually are available?—I cannot say.

1290. About the attitude to be taken by Government with respect to different forms of currency; I think it was perhaps suggested that there was some difference in respect of gold and gold currency notes?—That is so.

1291. The position is, is it not, that these currency notes are encashable only at about half a dozen centres in England?—At eight, I think.

1292. At other centres they are naturally liable at any time to go to a discount?—Yes.

1293. And any action that Government could take would be in the direction of making them encashable at more places?—Yes.

1294. Would that not be somewhat in the nature of removing an obstacle in the use of currency notes?—Yes.

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1295. Rather than directly encouraging them, so to speak?—If Mr. Keynes were arguing it with you, he would say that it is equally possible either to give or to withhold facilities for the changing of sovereigns into rupees.

1296. May I put it in that way—that this would be removing an obstacle and putting the note on an equality in the matter of discount with the sovereign?—No. It would be giving the note an advantage. The sovereign is encashable—that is to say, you can get rupees for sovereigns at about three places in India. What the Government does is, I think, to push the note a little more than it pushes the sovereign; it gives the legal right to encashment of the note at about eight places, but the legal right to encashment of the sovereign into rupees is given at a smaller number of places.

1297. As a matter of fact, the sovereign is encashable into rupees anywhere, is it not?—Not by the action of the Government.

1298. No, but it carries its value with it?—Quite so.

1299. With regard to the gold mint, the subject was dealt with at considerable length, was it not, in the last financial statement of the Government of India?—Yes.

1300. And the reasons why the Government of India recommended it were given there by Sir Guy Fleetwood Wilson?—Yes.

1301. That is the last expression of opinion of the Government of India on the subject?—Yes.

1302. (*Chairman.*) Will you hand in that financial statement of the Indian Government, so that we may have their latest expression of opinion?—I will hand in a copy of what Sir Guy Fleetwood Wilson said.*

1303. (*Mr. Gillan.*) I take it that your general position is that in the matter of gold it is better to increase our reserves than the gold circulation?—Yes; but I would not want the increase in the gold circulation to be stopped until the reserve had reached the particular sum.

1304. No, but that is your general tendency?—Yes.

1305. In this despatch No. 59, which the Government of India sent home on the gold mint, it is stated in paragraph 23 (*see page 62 of H.C. 495 of 1913*) that they look forward to the effect of the establishment of the mint being “to swell the volume of “sovereigns in the hands of the people and increase “their active circulation. Of the advantages of such “an increase in the circulation we have already “spoken. It diminishes the pressure on the Government of India for the coinage of silver. It keeps “down the heavy responsibility that rests on them “for the convertibility of the rupee, and thus simplifies the problems of exchange.” That, I take it, you do not agree is an objection to establishing the mint?—I do not think it has very much force in it; I will not say there is no force in it, but I am not very much impressed by the argument, I think.

1306. As regards the sentiment which has been expressed in favour of the gold mint, it is perhaps rather illusive, but I want to know exactly what you think of it. Suppose it is put in this way, that India is a very big country, that it has already very large financial interests and commercial interests, that in India both gold and silver are established as legal-tender coins, that you may at any time have a flow of gold from coinage to bullion, but at present there is no facility for the counter-flow of gold from bullion into coin, and that considering the largeness of Indian interests, some facilities of that kind should be established on the spot. Putting it on those general lines, what would you say to that sentiment, as you call it, or feeling?—I can understand that that line of argument which you have developed would appear convincing to some. I do not think that the correctness of your argument has much to do with the existence or non-existence of the sentiment, which, being a sentiment, would have little to do with any reasoning process. Taking the argument which you

are developing as a mere reasoning, I should say that whether it is conclusive or not depends on one's view as to the facts. I think all the facts seem to indicate that the people who have gold bullion in India have it because they want it in that form as is suggested in paragraph 2 of Lord Crewe's despatch of the 18th October 1912.* I see nothing to support the view that if they had the opportunity of getting it coined they would have it coined in any large quantity. If a sentiment such as has been alleged really exists and is widely spread, I do not think it rests on that logical foundation. It probably rests on the feeling that it is a fine thing for the inhabitants of a particular country to handle the coin which was minted at the mint of that particular country. You remember probably that the issue of coins is one of the attributes of sovereignty, and possibly an Indian would feel proud that his country should do the issuing of coins in the most noble of metals. I should think that that, which in me personally would not call forth much sentiment, probably is at the bottom of the sentiment rather than the good reasons which you have given.

1307. Suppose you put it on more purely political ground; suppose a sentiment of this kind among what Sir Shapurji has called the articulate Indian public, and that they feel that if any one of the self-governing Colonies, we will say, had asked for a mint it would have been given it as a matter of course, and that something is refused to India which would have been given in the other case, do you think that is a sentiment which, we will say, ought to be humoured?—Yes, I think that one has to recognise a sentiment of that sort. But then I look ahead, and think what will be the position of the sentimentalist, if I may use that word in the non-disparaging sense, if the mint is opened and costs, say, several thousands a year, and in the first year it coins, say, 15,000 sovereigns and in the second year 10,000 sovereigns and so on until a sovereign and more is spent on coining a sovereign, and if after some years of that the mint, as Sir Shapurji says, is scrapped because it is so ridiculous to have an expensive mint which does no business; I think you will probably be, I was going to say, outraging, injuring and wounding the sentiment of the classes that are spoken of, more than they would be wounded by the refusal of the mint now.

1308. Now about the amount of gold that is likely to come to the mint. Take what happens in a bad time of scarcity with an unfavourable exchange; it is the sovereign which is valued at a premium, is it not?—Yes.

1309. It is worth perhaps 15 rupees 2 annas, or 15 rupees 4 annas?—Yes.

1310. There is no likelihood of a sovereign then coming out, or of anyone bringing gold to the mint to be coined?—That is so.

1311. So it is not in those unfavourable seasons that we can expect any coining to be done?—That is very true.

1312. Take the contrary case in which you have got a strong exchange, and when there is a very strong demand for currency; at that time the chief demand is not for gold—for sovereigns—but for silver currency, is it not?—Yes, that is so.

1313. At that time it costs more than 15 rupees to land a sovereign in Bombay?—Yes.

1314. That is shown, is it not, by the fact that the exchange banks do, in point of fact, import a great number of sovereigns from abroad?—Yes.

1315. At the same time you have got a large quantity of bullion in the country?—Yes.

1316. Is it not at least conceivable that when the demand is for currency some of the bullion would come out of the hoards held in the country and be presented at the mint?—Yes. Now we have got away temporarily from the question of sentiment and have got back to the question of the convenience of the Government and of the commercial public. May I say, without appearing as though I were trying to be in any

* Not printed. *See pp. 16 and 17 of “East India—Financial Statement and Budget, 1913-4” (H.C. 130 of 1913).*

* H.C. 495 of 1913, page 65.

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[Continued.]

way epigrammatic, that what you have put is that the opening of a gold mint would probably have the effect not of giving India sovereigns when she might be calling for them, but of giving her sovereigns just at the moment when she is extremely likely to be embarrassed by having too many of them; because the time you are speaking of is a time of a great inflow of sovereigns imported by the exchange banks, and India is rather embarrassed, and the Government is rather embarrassed, by having to receive too many sovereigns and give out in exchange for them too many rupees.

1317. That is not precisely my point. There is a great demand for sovereigns in order to unlock the silver mints and get out the rupees, and the business is run upon a very fine margin. These exchange banks are always looking about for a place where they can get these means of unlocking the mints most cheaply; and it might happen that the cheapest method to them would be, instead of importing sovereigns, to get the bullion which is in the country and have it minted?—It might be, but I see no special reason for supposing it would be. There are very great advantages which they enjoy at certain periods of the year in the Australian exchanges which compensate them for the cost of sending sovereigns from Australia to India, and which are nearly equal to the cost of freight and insurance. I should have thought that it is very doubtful whether they would find it advantageous to an appreciable extent to get their gold currency in that way.

1318. Are we quite justified in prejudging that question?—No, but if that were to a great extent the business foundation of a scheme for setting up a gold mint at an appreciable annual cost, it would be a rather slight foundation. I will not go further than that, but I think up to that point I can properly go.

1319. (*Mr. Keynes.*) Is this your position, that on the kind of occasion which Mr. Gillan is thinking of,

the people would not be wanting to buy sovereigns, but they would be wanting rather to sell their gold?—At first I dealt with Mr. Gillan's question on that point, but now I see that what he is putting to me is this: the exchange bank would have two sources of supply—Australia and the possessor of gold bullion in India—and he is asking whether I think that the cheaper source of supply would not be the latter. My answer is that it might be, but there is much uncertainty about it.

1320. That is the same point, is it not; it would be meeting the convenience of the people in India who wanted to sell gold?—Yes.

1321. (*Mr. Gillan.*) It is the case, supposing a special Indian coin were adopted, that the cost of running this gold mint would be very small?—Yes, that is so.

1322. I do not know if you have got in your mind any other disadvantage against the gold mint than those we have been discussing?—No. I think the only things against it are, first, that if it were for sovereigns it would be comparatively costly, and secondly, that it might by its failure to attract a large amount of gold for coinage, wound that very sentiment that it is intended to please.

1323. Putting aside that sentiment, the suggestion of this new coin, if it were adopted, would enable the bullion in India to be coined at a small expense?—Yes, certainly.

1324. (*Sir Robert Chalmers.*) Would it not be cheaper to have bullion tendered without its going through the mint?—It was the practice formerly that the Government of India received bullion, but they rescinded the notification under which they received it, and I think they were fairly well justified in doing so, because it was rather a nuisance for Government to have to receive gold bullion in exchange for rupees, and not to have any means of dealing with bullion except either selling it or sending it home.

The witness withdrew.

At the India Office, Whitehall, S.W.

FIFTH DAY.

Thursday, June 12, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.

Lord KILBRACKEN, G.C.B.

Sir ROBERT CHALMERS, K.C.B.

Sir ERNEST CABLE.

Sir SHAPURJI BURJORJI BROACHA.

Sir JAMES BEGBIE.

Mr. ROBERT WOODBURN GILLAN, C.S.I.

Mr. HENRY NEVILLE GLADSTONE.

Mr. JOHN MAYNARD KEYNES.

Mr. BASIL P. BLACKETT (*Secretary*).

Mr. F. W. NEWMARCH called and examined.

1325. (*Chairman.*) You are Financial Secretary to the India Office, I think?—I am.

1326. How long have you held that position?—I have held that position since 1911; before that I was Assistant Financial Secretary since 1902; and before that I was in the Military Department. I have been in the Finance Department since July 1902, with the exception of a very short interval when I was Secretary in the Public Works Department.

1327. I understand that you are prepared to give evidence on two subjects with which we are concerned, namely, on the question of the sale of Council bills and telegraphic transfers, and on that of the paper currency reserve?—Yes.

1328. Do you propose to offer evidence on any other points?—I have no desire to offer evidence on the other

subjects within your reference. I think you will have very full evidence on those from other witnesses.

1329. You have prepared have you not, memoranda on those two subjects, which we have before us?—Yes.

1330. Those I propose to take as part of your evidence and to print with our proceedings. (*See Appendices VII. and VIII.*) Taking first the paper relating to Council bills and transfers, the sale of these dates back I see to the time of the East India Company?—Yes.

1331. Is the practice of selling bills and transfers in excess of the actual immediate needs of the India Office, equally old?—I can find an instance in the year 1863–4. In that year the actual drawings exceeded the Budget estimate of them, and also of the

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[Continued.]

home charges, by more than $3\frac{1}{2}$ millions, or more than 65 per cent. Commenting on this in the Financial Statement of the Government of India, Sir Charles Trevelyan, Finance Member, said, "The sale of the Secretary of State's bills has given great relief to trade by obviating the necessity for the remittance of an equal amount of bullion from England." There are not very many years about that period in which the drawings largely exceeded the Budget estimate. In the period 1872-3 to 1898-9, sales were very much affected by the decline in exchange, and the Secretary of State had many times a difficulty in drawing, or was unable to draw, the whole amount for which he had budgeted. But in the two years 1881-2 and 1883-4, the estimates were exceeded. In the first year the home charges were 14,325,600*l.*, the Budget estimate of the drawings 17,200,000*l.*, and the actual drawings, 18,412,429*l.* In 1883-4 the home charges were 13,911,800*l.*, the Budget estimate of drawings 16,300,000*l.*, and the actual drawings 17,599,805*l.* There were not many other years about that time in which the drawings exceeded the estimate, because the great fall in exchange rendered it impossible. Then we come to the year 1898-9, when I find a Minute by Sir James Westland, who was then Finance Member to the Government of India, which was laid before the Fowler Committee, and perhaps I might read you a passage from it. He said, "The distribution of Council bills over the twelve months remains entirely in the hands of the Secretary of State; we in India give him from time to time our recommendations, and especially advice as to the amount we can make available for his drawings; but as the primary object of the Council bills is to place him in funds for the expenditure which he has to undertake, we leave it to him to consider when drawings may be eased off for want of commercial demand, or increased to meet commercial demand. At the same time we are quite aware that the policy of the Secretary of State in the matter is the same as our own, that is, to draw during the 12 months as much as we can meet." Since that time we find frequent references to the same point. Perhaps I might quote you one passage if you will allow me, from the Financial Statement for 1906-7: "The drawings of the Secretary of State have largely increased during the past three years, the average sales from 1903-4 to 1905-6 having been 26,620,000*l.* against an average of 17,620,000*l.* during the previous five years. This increase does not correspond to any equivalent expansion of the Secretary of State's requirements on revenue account (which constitute the home charges proper) though there has been some growth of the latter also. It is due primarily to the great demand for remittance to finance the export trade of India which has developed very largely of late. . . . The policy of Government has been to sell Council drafts freely so as to supply the trade demand to the fullest extent up to the limit of our capacity to meet them." One can find many passages like that embodying the same policy.

1332. You would agree, I suppose, that it is unusual for any Government to do business of that kind?—I suppose it is unusual. The practice has existed for over 50 years. I think what we are doing is very similar to what, in the same direction, an English company doing business in India does; it has to draw its profits home, and it just deals with exchange to the extent that it seeks for the best opportunity and the best rate it can get in the year for drawing its funds home.

1333. In the passage which you have just read, the writer, I think, spoke of drawing in excess of the current demands of the Secretary of State for revenue?—Yes.

1334. The distinction between his demands for revenue purposes, that is, for the current expenditure of the year, and for capital purposes, is important?—Certainly.

1335. Does he draw in excess of his demands for both current expenditure and capital purposes?—I think so, certainly. I think one might put it this way

—that when any country has any surplus of revenue over expenditure, such a surplus is properly applicable either to the reduction of debt or the reduction of borrowing. India is a regular borrower, and she must borrow every year for public works. It can only be a question in India's case, not of actually reducing debt, but of reducing borrowing. The borrowing has to be done mainly in this country, and therefore the surplus revenues which are available, must, I think, be remitted to this country for that purpose.

1336. My question to you was whether he sold in excess of his requirements, both on revenue account and on capital account?—He may in any one particular year. I think the recognised principle is really this—that there is a certain standard balance with which the Government of India think that they ought to close the year, which is put at about 12 millions or $12\frac{1}{2}$ millions, and if they see their way to finishing the year with a larger balance, then it is considered right that those balances should be drawn home to this country if the state of exchange permits of their being drawn home profitably, although they may not be required in that particular financial year for either revenue or capital purposes. It is so much ready in advance, and if the exchange is favourable, we can get it home one year in anticipation of the needs of the next year; then we have so much less to draw in the next year, and the less danger of a drop in exchange by overselling.

1337. The governing factor being really that the Indian Government is a continual borrower in London?—Yes, we have to borrow in London, and we have to incur the major part of our capital expenditure, that is to say, on railways, rolling stock, and all that kind of thing, in England. If India could produce its own rolling stock, its steel rails and so on, as I hope it will do some day, to a much larger extent, then the balances would not need to be remitted home, but they could be used in India for capital expenditure there.

1338. Wherever you can, you do deal in India now in preference to borrowing on this side, do you not?—India borrows on a small scale; for instance, she seldom borrows more than three crores in a year, but she is able to borrow those three crores on much more favourable terms than we could borrow here.

1339. Why then does she not borrow more there?—I think that is a question for consideration, and I may say it is one which the Secretary of State has brought to the attention of the Government of India recently. At the same time I think the Indian market is narrow, and that it would not admit of the borrowings in India being very largely increased.

1340. Just give me the reason for that last observation of yours—that it would not admit of the borrowings in India being largely increased. Is that because the charges for which you borrow have to be met on this side, or because, in your opinion the amount of money that would be lent in India is inconsiderable?—I meant that the amount of money available for investment is limited. I think India can meet a three crore loan, that is to say, two millions, very easily, and possibly a four crore loan might be raised easily; but if you tried to raise the borrowings in India to any very large scale, you would damage the rate at which the borrowing could be done.

1341. When selling Council bills and transfers how do you determine the minimum rate for any given week?—There is one absolute minimum, which is 1*s.* $3\frac{2}{3}$ *d.*; that is considered to be the gold point, and the Secretary of State rigorously stops at that point and does not sell his bills below that. When you come to any minimum short of that, I should say it is a matter of discretion, and it is determined by the conditions of the time, whether the Secretary of State's demand for money from India is a very urgent one or not a very urgent one; and also I think some consideration has to be given to the dearth or cheapness of money in India; for instance, if the bank rates in India are very high I think that is rather a reason for selling more freely, even if the rate of exchange is not very good, than we would otherwise do.

1342. When you have sold the amount which you have offered for sale on a particular Wednesday, what is your reason for selling intermediate bills in the

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[Continued.]

course of the week following?—We charge a somewhat higher price for them. We offer to sell intermediates at $\frac{1}{2}d.$ higher than the rate at which we sold the bills on the Wednesday, or, at any rate, at which we sold part of the bills on the Wednesday, so that we get a little extra profit in that way. I think from the point of view of the public these intermediates are a very great convenience, because a great deal may happen between one Wednesday and another. A sudden demand may spring up in India for money, and a great amount of money can be remitted to India by telegraphic transfers, say, between one Wednesday and another. That is a very valuable convenience, especially when our rate is at its maximum. Then there is the other consideration, that if they apply for an intermediate, or a special, as we call it, they are sure of getting the whole amount they apply for, so long as the Secretary of State has not sold up to the limit up to which he means to sell intermediates—for he has a limit, although that is not definitely announced.

1343. He does not bind himself then to sell an indefinite amount?—No, except when the rate gets to its maximum, and then he sells without limit. In this way I say it is a convenience, because the buyer of a bill can be sure of getting a certain amount instead of getting, perhaps, only half of what he applied for, or a tenth, or something like that.

1344. Does that not have a tendency to keep down the tenders on the regular Wednesdays?—No, I think not, because we always charge, as I say, $\frac{1}{2}d.$ more for these intermediates than we have done on the previous Wednesday.

1345. Supposing a man knew that if he did not get the bills on Wednesday he would not have another chance till the following Wednesday, would that not induce him to put in a higher tender than he puts in now when he knows that he can always get the full amount he wants within $\frac{1}{2}d.$ of the rate at which they were allotted on the particular Wednesday?—It is a good price for the certainty, I think, and it is a great convenience to the market. I do not think it affects the demand on the following Wednesday.

1346. I understand that all the sales are approved by the Finance Committee and by the Council?—They are after being done.

1347. Is that a purely formal proceeding?—Of course, as regards what has been done on Wednesday it must be a formal sanction; but the presentation of those figures affords an opportunity for members of the Finance Committee, and afterwards members of the Council, who have not had a part in this, to offer their views and to make suggestions if they think fit as to future sales.

1348. In some circumstances I see that you sell bills or transfers against gold in transit from either Australia or Egypt?—Yes.

1349. I do not quite understand why that is done, although it is mentioned in your memorandum (paragraph 11 of Appendix VII., page 218); perhaps you would explain it to me a little more clearly?—This practice was begun in December 1905. Before that time it had been the practice of the Secretary of State to hold a certain amount of gold—I think it was the fixed practice at that time to hold five millions of gold—in this country, which might be used for the purchase of silver, and it might be depleted in that way. Supposing we depleted that stock it might be useful to bring home more gold; it is a cheaper method, if we want to replenish our stocks of gold here, to buy gold in transit rather than to ship it from India, because we save the cost of insurance and freight. They cost us nothing if we buy it in transit, because we give to the seller of the gold a transfer on India of the equivalent at $1s. 4d.$, so we practically buy the gold at par. He gets just the same number of rupees for his transfer—it may be a transfer, say, of 15 lakhs—as he would for 100,000 sovereigns, and we bring the gold to this country free of charge practically. It all rests upon the assumption that we want to bring gold here. But there is a still more advantageous method by which we can increase the amount of gold or replenish the amount of gold we hold here if necessary; that is, by earmarking gold

against sales of transfers in the ordinary way, for instance, transfers at $1s. 4\frac{1}{2}d.$ When the occasion arises that it is not convenient for the Government of India to meet our bills or transfers from their Treasury, we practically effect a transfer of currency money from India to this country instead of a transfer of Treasury money, and we then practically buy the gold at $1s. 4\frac{1}{2}d.$ probably instead of at only $1s. 4d.$

1350. You earmark the gold part of the paper currency?—Yes.

1351. And you lodge the gold with the Bank of England?—Yes.

1352. And issue additional notes in India against it?—Yes.

1353. As you have explained, the Secretary of State does draw money in excess of his immediate needs?—Yes.

1354. And in anticipation of future requirements?—Yes.

1355. What have you to say as to the effect of that upon Indian trade and commerce; does it reduce the amount of capital available in India?—I think not, because every sale of a bill or transfer releases so much money which is locked up in the treasuries of the Government of India, and puts it on the market. It has the same effect on the market, I think, as a shipment of sovereigns, except that the sovereigns go on the market direct, whereas the money represented by the Secretary of State's sale of a bill or transfer is paid out of the Indian treasuries.

1356. I understand you to say that the reason why the Secretary of State does not stop selling bills as soon as his own immediate needs are satisfied is, because of the uncertainties of exchange in the first place, that he is glad when opportunities offer to guard himself against a future fall?—Yes.

1357. And, in the second place, because it is found convenient and helpful to Indian trade that he should sell the same?—Yes.

1358. Are there any other reasons for that course which he pursues?—I think the real underlying ground for the whole system is what I have referred to before, that if India holds surplus balances as the result of very prosperous years, such as India has had recently, the proper disposal of those surplus balances is for the avoidance or reduction of debt, and the natural thing is to bring them home here. I might instance the case of the present year. The balances of the Government of India have risen to a very high level—they were over 19½ millions at the beginning of the current year—and our balances were over eight millions. According to the Budget, those balances will be reduced by over 11 millions in the course of the present year—the balances in India will be reduced to about 12½ millions, and our balances will be reduced to four millions. Those 11 millions will go towards the reduction of borrowing.

1359. Take those 8 millions; how long have they been here waiting for what I may call their permanent employment—I do not mean to suggest that they have necessarily been entirely idle?—As I say, we started this present year with balances of a little over eight millions, and we budgeted to reduce them to four millions; so those four extra millions have been lying here.

1360. Is there any reason why they should not have lain in India until they were required?—Only, I think, that reason of the question of exchange—that our policy must be to make hay while the sun shines.

1361. In fact, the apprehension that if you do not move them to this side when you can, you may not be able to move them to this side when you need them?—Quite so; and that they may when they are here serve as a resource against a fall in exchange. In fact, I think the same argument applies as to holding the paper currency reserve and the gold standard reserve funds here; they all serve the same purpose in meeting an exchange crisis.

1362. A large part of those balances is lent out here in London?—Yes.

1363. It is not unnatural that when rates are high in India that should give rise to criticism in that country, is it?—No; I can understand that.

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[Continued.]

1364. Do you think anything can be done in India's interest to meet that criticism?—I have very little first-hand information, but I understand that the balances in India might be lent out to the advantage of trade to a moderate extent, and during a very short period of the year. But then one finds opinions absolutely opposed to that, as, for instance, Mr. James Amman Bryce said in the House of Commons a few months ago that the idea of lending money in India was an absurdity.

1365. On what grounds?—Perhaps I might quote what he said for what it may be worth: "The idea of employing the Government balances in India is an absurdity. If they did use them there the value of money, which is at present on the average rather higher than the value in London, would fall below the level of the market money here, supposing the balances continued as they are at present. I noticed a case this morning of the violent fluctuations which take place in the money markets in India. The rate of the Bengal bank was at 8 per cent., and to-day it is at 7 per cent., and money is really not lendable in India at over 5 per cent. The reason of that is the failure of the autumn rains in the Punjab, with the result that the supplies of wheat have been very small and exports from Karachi have in consequence ceased."* I do not profess to offer that as my own opinion. I think the more general opinion is that the balances in India could be lent during a portion of the year, though only to a moderate extent.

1366. (Mr. Gillan.) What is the date when Mr. Bryce made that statement?—13th February 1913.

1367. (Chairman.) In paragraph 21 of Appendix VII., pp. 220-1, you deal with the sale by the Secretary of State of bills in excess of his requirements, and I think you point out that he not only sells in excess of his own requirements, but that he has sometimes sold bills in excess of the power of the Government of India to meet them out of their ordinary resources?—Yes.

1368. The justification, as I understand, for this is the convenience of trade?—Yes.

1369. You quote what happened in 1900 as a proof of the desire of the commercial community that this practice should continue. In paragraph 24 of Appendix VII. (page 221) you quote from a communication from the Associated Exchange Banks of Bombay a protest which I observe was directed against the sudden withdrawal of facilities. They telegraphed to the Government of India on 16th January 1900, that "Acute financial stringency prevails, caused by sudden withdrawal without previous notice of facility granted 21st January 1898. Banks respectfully protest against the sudden withdrawal and beg immediate steps be taken to relieve critical situation and avert panic." What the banks appear to have protested most against was the sudden withdrawal without notice?—Yes.

1370. Do you think their opposition would have been equally strong if proper notice could have been given?—I do not think the opposition would have been equally strong, and I do not think the inconvenience would have been so great, but I think it would have been felt seriously all the same. The demands for remittance to India spring up very suddenly, and I am convinced that no other means of remittance would have enabled the banks to meet such sudden demands as easily and with so little disturbance to trade as the means afforded by the free sales of the Secretary of State's telegraphic transfers. The banks would have to meet the anticipated demands for money on a large scale by shipments of sovereigns, and these would have to be arranged fully three weeks in advance of the anticipated demand; but forecasts so far ahead are very uncertain. The Bank of England would very likely put its rate up in self-protection, and then there would be stringency of the money market both here and in India. I would in confirmation of that ask the Commission to be so kind as to look at Table V. and the diagram attached to it in Appendix VII., page 237. You will see that there is a

line which goes up into a peak something like the Matterhorn. You will also see that for the four weeks ending December 1911, sales of only about 42½ lakhs satisfied the requirements of the market, but three weeks later just under 150 lakhs were sold in one week, and in the following week 230 lakhs, more than 1½ millions, mostly at maximum rates. Now, had it been the declared intention of the Secretary of State to limit his sales in December, January, February, and March 1912 to, say, 40 lakhs a week, no doubt the banks would have prepared themselves to some extent by shipments of sovereigns in December and onwards for anticipated demands in January and February; but I do not think they would have been prepared to meet the extraordinary demand that arose, or would have met it with anything approaching the ease and convenience afforded by the Secretary of State's sales of telegraphic transfers. We must remember that these free sales at a high premium are a source of profit to the Exchequer, while heavy shipments of sovereigns to India might possibly result in sovereigns having to be shipped back on Government account for the purchase of silver, at the expense of freight and insurance.

1371. The Government of India and the Secretary of State take a heavy and an unusual responsibility upon themselves, do they not, in the task which they have assumed?—Perhaps that is so. I think it is in the interests of India that they should consider the interests of trade as much as possible, as it affects revenue so largely, and the general prosperity.

1372. Does any other Government play a similar part in regulating the exchange of the country for which it is responsible?—No, I suppose not.

1373. You would not say that the circumstances of India are profoundly different from those of other countries, would you?—I think our whole position is unique; but I venture to think that this system of selling freely to meet the demands of trade works satisfactorily.

1374. In paragraph 22 of Appendix VII., page 221, you have explained in a note on the Act of 1898 the arrangements that were made for authorising the Government of India to issue notes against the gold held as part of the paper currency reserve in London to which you have already referred; would it be fair to say that that is really a way of introducing elasticity into the paper currency system, its effect being much the same as if you were to make a fiduciary issue of notes?—I admit it was somewhat similar to an increase of the fiduciary portion of the currency reserve, and in that respect its effect was similar to the arrangement under the notification issued by the Government of India some five years earlier, by which they agreed to issue notes against gold. That was before gold was made legal tender. When gold became legal tender I think both those arrangements ceased to have a quasi-fiduciary character. I think that this arrangement under the Act of 1898 was not directly intended to enlarge the currency reserve, but that it was intended to enable the Government of India to meet the Secretary of State's drawings at a time when there was a tremendous demand for them, and at a time when the Treasury balances were not strong enough to enable them to meet them from the Treasury. That was the real object of the Act in the first instance.

1375. Have you ever considered the possibility or desirability or otherwise of handing over the paper currency to a central bank?—One has heard of that question, of course, a good many times, and I was proposing to give you some information about it in connection with the paper currency reserve.

1376. Very well; I will not pursue that now. You say in paragraph 25 of Appendix VII. (pp. 221-2) that it is as important to keep exchange from rising above the gold point as to prevent it from falling below the gold point; I think Mr. Abrahams told us the same thing. Supposing the Secretary of State were to cease to sell bills without limit, would there be any danger of a rise above the gold point being more than purely temporary?—No, I think not, because no doubt shipments of gold would soon relieve that. The protest to the Government of India to which I refer in that paragraph had

* Official Report, House of Commons Debates, vol. 48, page 1308.

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reference to a temporary forcing up of the exchange to ls. 4½d.

1377. You have spoken in your note of the objection to an excessive accumulation of gold in the paper currency reserve, and you have spoken also of the possible necessity and expense of shipping gold home to relieve such accumulation; what is the objection to the accumulation of gold?—In the passages to which you refer I, perhaps, rather transferred into the present ideas that have been held in the past. The view as to the proper amount of gold to be held in India has been constantly changing. At first, I think five millions was regarded as a sufficient amount to hold, and an amount at which, when it was passed, the Government of India should begin to think about coining silver. Then the limit was raised to seven millions, and then it was advanced beyond that. I think the idea of the present time is practically expressed in a passage of a despatch from the Government of India in which they said: "Subject to the provision of sufficient rupees and reserves of silver, we would allow our stock of gold to grow indefinitely with the expansion of the note circulation, until such time as it may be deemed expedient to make a further addition to the invested portion of the reserve." So I think our present view is this: We regard a certain quantity of silver as necessary, and then the amount of the invested portion of the reserve is fixed for the time being by an Act of the Government of India; at present it is 14 crores, but an Act can be passed at any time enlarging that amount. We have got 14 crores fixed at present as the invested portion, and then we have a formula as to what shall be the proper amount of silver, and then, provided that sufficiency of silver is maintained, I think the present view is to regard without any apprehension any increase in the gold portion of the reserve; in fact the gold portion of the reserve is the really elastic portion, as it expands with the demands of trade, and has grown enormously in the last two or three years.

1378. I think in your note you rather assume, do you not, that gold in India is not as valuable for maintaining exchange as gold in London?—Yes.

1379. Will you tell me why?—I would put it in this way: When an exchange crisis occurs, in other words, when the balance of trade is unfavourable to India, the Secretary of State may have to suspend his sales of bills, and may also have to meet bills on London, as in 1907-8. The stronger his sterling resources in the shape of gold standard reserve assets, Treasury balances, and paper currency reserve combined, the longer he will be able to withstand the double strain of stopping his drawings from India and meeting drawings upon London. Gold held in the paper currency reserve in London is a certain source of strength in such a crisis. It can be readily transferred to Treasury balances on the Government of India making a corresponding transfer of rupees or sovereigns from the Treasury to paper currency reserve in India. Gold held in the reserve in India can, of course, be used for the support of exchange if the Government of India lay hands upon it and ship it home (with the expense of shipment); but if they allow it to go out of the reserve in exchange for notes or rupees it does not, at any rate according to the experience of 1907-9, serve to support exchange, because it is not shipped abroad on any considerable scale, but is taken out for hoarding or internal circulation.

1380. Have you any information as to what became of the large sums that were issued in India during that crisis, which did not go to support exchange, and which were not exported; have you any information, that is, as to the proportion which really went into circulation, and the proportion which was hoarded or melted down?—I am afraid I cannot show—and this applies not only to that period but to any year—how much goes into hoards, and how much goes into circulation. We have evidence that the amount in circulation is increasing, but no one can express in anything like exact figures how much goes into hoards and how much goes into circulation.

1381. I gather, from what you said a moment ago, that you set great store by the amount of the gold resources of the Secretary of State in London?—Yes.

1382. In speaking of the gold resources in that way, do you mean actual gold or do you include securities?—It would include all—everything that he holds here, including balances.

1383. What you have said as to the importance of his holding gold does not lead you to think that it must be bullion or coin and not securities?—Not necessarily, except that the portion which is held as part of the paper currency reserve must, I think, be gold.

1384. Do you think that the holding of considerable portions of the gold standard reserve in securities is as effective for the support of exchange as if it were held in gold?—We should not so readily sell securities held as part of the gold standard reserve as we would part with gold. We should part with gold first. We can take the gold out of the paper currency reserve here very readily through the Bank of England, which would transfer a corresponding credit to the Secretary of State's balances; and then to make up the currency reserve, to keep it intact, the Government of India would similarly transfer a corresponding sum from their Treasury balances into the paper currency reserve, in that way keeping the note reserve intact.

1385. But then you are really using the paper currency reserve to buttress the gold standard reserve?—For a very similar purpose, yes, that is, for the support of exchange.

1386. Is that necessary?—I think it may be very valuable. I think possibly what we would draw upon first would be the gold standard reserve, but then the paper currency reserve would be a further reserve.

1387. On the other hand, if you have more gold in the gold standard reserve you might not need to draw upon the paper currency reserve at all?—If there were more gold or more securities in the gold standard reserve that would be so.

1388. Is it indifferent whether it is gold or securities? I understood that you contemplated using the gold in the paper currency reserve, just because you might not be ready or it might not be easy to realise immediately the securities?—Or there might be a loss on realising them.

1389. Therefore, to render you quite independent of the gold in the paper currency reserve, it would be necessary, in your opinion, to have, at any rate, a larger amount of gold than you now have in the gold standard reserve?—That is one way of putting it.

1390. I do not want to force an opinion on you if it is not yours, and one which you do not really hold; you say that is one way of putting it?—I would rather put it in this way—that the first reserve, the central reserve, for the support of exchange, is the gold standard reserve, and that the greater part of that is best held for use in this country for the support of exchange. The gold held in the paper currency reserve may serve as a subsidiary reserve to that, perhaps not to be drawn upon until we have already exhausted the other, but still it is a reserve. In the same way I would say that, supposing the Secretary of State has taken advantage in one year of a good exchange to draw balances over from India, so far as he can, without unduly depleting the balances of the Government of India, those balances held here serve the same purpose, because they relieve him up to a certain point from the necessity of selling bills on India when the exchange is bad.

1391. I was induced to put my question because I thought that some of the criticism which has been directed against what has passed arose from a certain confusion as to the uses of those two reserves and the way in which they were employed to play into one another's hands, if I may so express myself. Do you think there would be any advantage, from that point of view, in trying to keep them more independent and distinct?—I think we do keep them quite independent, and we would regard the gold standard reserve as the one immediately to be drawn upon, but I think the other serves as a useful subsidiary.

1392. In paragraph 28 of Appendix VII. in dealing with these sales you say, in subsection 4 (page 223) that one of the considerations which governs the decisions of the Secretary of State is that he should "allow a

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"sufficient amount of sovereigns to flow into India to supply the demands of the public." I think the working of the arrangement has been criticised on the ground that that has not been the result?—Of course the amount of gold that flows into India is regulated by the amount of the Secretary of State's drawings, and when, as in recent years, the surplus balances in the hands of the Government of India are very large, according to the policy I have stated we do draw those balances home, and that very largely swells the amount of the Secretary of State's drawings, and to that extent limits the amount of gold that goes into India. Nevertheless, in the last few years gold has gone into India on a very large scale indeed.

1393. Do you think there is any difficulty in India in getting gold when it is wanted?—I think not. There have been as much as 20 millions in the paper currency reserve lately; at the present time it is somewhat less, but it is, I think, something between 17 millions and 18 millions, and anyone on presenting a note or rupees can get gold in exchange.

1394. Do the people who need gold often have to pay a premium for it?—Certainly not, if they go to a currency office.

1395. In paragraph 30, Appendix VII., page 223, you say that it is a misapprehension of the India Office policy to describe it as adopted in the interests of the City of London and not in those of India. Is it not possible that a system which drew less from India might, at the same time, relieve the stringency of the Indian money markets, and might be advantageous to India even if it was disadvantageous to the London money market?—I hardly think so. Our sales of bills on India release these funds from the Indian Treasuries and supply the markets.

1396. So that in fact in your opinion there is as much capital available in India as there would be if neither transaction took place?—Yes. I think that there is as much money available under the system of selling bills freely as if we sold less freely and gold went into India.

1397. You hold, I think clearly, that the fixing of the exchange rate of the rupee at 1s. 4d. has been beneficial to India?—I do, certainly.

1398. Have you any information as to the effect which fixing the rupee rate has had on Indian trade with silver-using countries?—I have got out some figures, which I could give to the Commission if they would like to have them, showing comparisons of the trade between India and China, and also between India and Persia (which is more or less a silver-using country) before and since the fixing of the rupee. I have also got comparative figures of the imports of China and India to this country before and after.

1399. Will you circulate those figures for our information?—Certainly. (See Appendix IX., pp. 289-93.)

1400. Can you tell me now what the general result of them is?—I should say that the general result is that while India's trade has expanded enormously since the fixing of the rupee, the expansion as between India and China has been somewhat less than as between India and other countries, but not, I think, very materially.

1401. Would you say that the effect of fixing the rupee has been advantageous elsewhere, but slightly disadvantageous there?—It has been less advantageous, I should say. India's trade has not expanded so largely with the silver-using countries or in competition with the silver-using countries, as elsewhere.

1402. (Lord Faber.) I understood you to say that India can take up a loan yearly for about two millions sterling pretty readily?—Yes.

1403. Do you not think that India is increasing in wealth and in knowledge of investments every year, and that she could invest much more in rupee stocks now than two millions a year?—I think the indications are in that direction. We find that India not only takes up the rupee loan at a good price, but at a considerably better price than we can get for our 3½ per cent. loan here, whereas until quite lately the price was worse; and not only that, but India is

gradually taking home some part of the rupee debt which is held here.

1404. I gathered from you, did I not, that the rupee loans are the firmest loans in the Indian market?—Yes.

1405. Now with regard to the gold standard and paper currency reserves, do you think it possible that those might be amalgamated?—No, I do not see the possibility of that.

1406. One, I understand from you, is required in India, and the other is required in London?—I think the gold standard reserve is required here, but then the paper currency reserve, you see, serves the one different purpose of a security against notes. I do not quite see how you could blend the two.

1407. You think it would be difficult, I understand, to lend out large sums on loan in India; is that because you think that gilt-edged securities would not be available as against those loans in India?—I think that is one reason, certainly.

1408. Is not the effect of fixing the value of the rupee to do away to a great extent with a large gambling element that used to enter into the Indian trade before?—I cannot say that I have any definite knowledge on that point, but I suppose it would be so.

1409. (Sir Ernest Cable.) I should like to ask you the question in a somewhat different form to that in which Lord Faber has put it. You said the Government of India could float loans up to about three crores per annum?—Yes.

1410. That is, at 3½ per cent.?—Yes.

1411. And you estimated that they might possibly float another crore?—Yes.

1412. Could you give us an estimate how much they could float if these loans were at 4 per cent.?—I am afraid I could not.

1413. It would be very much larger, would it not?—I suppose it would be larger, but I should say that the amount of money available and forthcoming would probably not increase in proportion to the extra charge which such a rate of interest would impose.

1414. You have said a good deal to-day about the Secretary of State having sold bills in excess of his requirements; you mean of his actual disbursements?—Yes.

1415. Can you say if he has sold any such excess at anything below 1s. 4d., and, if so, is that justifiable?—I think that it is justifiable under certain circumstances. For instance, if you will look at Table III. of Appendix VII. (page 233) in regard to the year 1909-10 you will see that the amount sold in the first half of that year was 10 millions sterling, which was sold at 1s. 3·951d. I think the justification for that was that it was just after the great crisis of 1907-8 and 1908-9, when so large a portion of the gold standard reserve had had practically to be transferred to India. In order to support exchange the Government of India had sold bills on London to the extent of 8,058,000l., and when the crisis was over it was thought very necessary that that gold standard reserve money should be transferred back to this country. For that reason the Secretary of State sold bills very freely that year, although at a low rate of exchange. It did not have any permanent detrimental effect on exchange, I think, because before the end of the year exchange reached quite a high point; but I think it was important to sell freely even at an unprofitable rate in order to get the gold standard reserve funds back to this country.

1416. That was an extraordinary occasion, of course?—Yes. Then as regards other times, I think the circumstances of the time must decide the question upon each occasion.

1417. I see from Table IV. of Appendix VII. (pp. 234-6) the average annual excess of exports and imports for the last five years has been between 40 and 50 millions?—Yes.

1418. While the net import of gold bullion and sovereigns was 24 millions last year. It appears that gold is being absorbed at an increasing pace; is it not likely, therefore, that the value of gold to India may become so great as seriously to hinder the sale of the council drafts needed to meet the Secretary of State's actual expenses, quite apart from his excess drawings

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about which so much has been said?—I cannot think that the imports of gold into India could be governed by anything else but the balance of trade. So long as sovereigns can be shipped to India to compete with the Secretary of State's bills, they will go there, but they will not go in except as competing with his bills.

1419. (*Chairman.*) I did not quite gather the latter part of your answer?—I mean the extent that they will go there will be determined by the extent to which they will compete in point of cheapness with the Secretary of State's bills and transfers.

1420. (*Sir Ernest Cable.*) Do you think the people would not pay slightly higher for hoarding purposes to get gold?—I think the people, as it is now, can get sovereigns if they want to hoard them. They have not to import them at any cost, but merely to take them out from the paper currency reserve against notes.

1421. What is your opinion about encouraging the use of gold in India?—I should wish everything to be done that would encourage the circulation of gold in India, but I do not see how Government can either encourage it or discourage it except by allowing gold to go in in the ordinary course of trade.

1422. Do you think that removing the tax on silver would stimulate the hoarding of silver instead of gold?—Do you mean the hoarding of rupees or bullion?

1423. I mean bullion?—I think it perhaps would, because it would make the import of bullion cheaper; but at the same time I am bound to say that the imposition of the increased duty on silver a few years ago does not seem to have materially checked the import of silver into India.

1424. The bulk of the currency notes in circulation are 10-rupee notes and 5-rupee notes; do you not think it is unlikely that those notes will be presented in large quantities, being of such small denominations and spread over a large country, in other words, do you not think there is very little likelihood of a run on the paper currency reserve?—Yes.

1425. In view of that answer, do you think it will be a good thing for some part of the note issue to be against the general assets of the Government, that is, entirely fiduciary, such, for instance, as the German Reichsbank note issue is?—I hardly see the necessity for a change in that direction. If I understand the Reichsbank system, it is rather necessitated by a difficulty Germany finds in getting gold. The experience of the last few years seems to show that India can get a great sufficiency of gold, and that the currency reserve expands in times of good trade automatically by the influx of gold. If you look at the tables of the paper currency reserve, you will see to what a great extent that has happened in the last two or three years. The total note circulation has expanded to a very large extent, and although that has been entirely due to imported gold, it has gone from just under 55 crores at the end of 1911 to practically 69 crores at the end of 1912, and that although in the same period the silver has decreased.

1426. (*Chairman.*) What table are you looking at?—Table 1 in Note I. to Appendix VIII. (pp. 248-9). You will find there how the currency reserve has expanded in the last three years. The total circulation has expanded from, say, 55 crores to 69 crores, and the amount of silver in the currency reserve has fallen in the same period by 10 crores, while it is the amount of gold that has risen so very much and expanded the total circulation. I think that shows a great expansiveness in the currency.

1427. (*Sir Ernest Cable.*) The point I wanted to bring out was this—that perhaps the paper currency reserve was over-protected, while, of course, the gold standard reserve is admittedly under-protected. I was trying to see whether we cannot sell some of the securities which are now in the paper currency reserve and apply that to the gold standard reserve, thus making both funds adequate to their responsibilities; and I was suggesting that, instead of the amalgamation scheme which Lord Faber suggested and which you say is impracticable?—I do not see how your suggestion is practicable. The intention of the gold standard reserve was that it should just grow from the profits

on coinage and the proceeds of the investments made from those profits and nothing more.

1428. (*Mr. Gladstone.*) I think you agreed with the Chairman—and I suppose with all of us—that the practice followed by the Secretary of State in regard to the disposal of Council bills and other things, is not followed in any other country?—I believe that is so.

1429. Do you think that similar conditions prevail in any other country in the world?—No, I suppose not.

1430. The only similar case—I think it is in no way comparable, really—would be, I suppose, Holland with its large colonial possessions, but that would be a mere nothing compared with India and this country?—It is on a much smaller scale.

1431. In regard to the table* which you prepared showing the trade figures since the adoption of the gold standard, it seems to show that the expansion with China, a silver-using country, has not been so large as with other countries. Do you attach much importance to that? Might not that be due to special causes, for instance, to opium and the rather extraordinary political disturbances in China that have been prevalent?—I have no doubt the disturbances in China had a great deal to do with it. I do not know about the opium so much, because the value of the exports of opium must have kept up very well until almost the end of last year, although the quantity exported has been gradually reduced. I should not attach very great importance to any declining trade with China or any want of expansion in it.

1432. With regard to loans in London and the possibility of making loans in India, you would not consider, would you, that the facilities for lending in India are at all comparable to what they are in London?—No.

1433. London, of course, is the banking centre of the world, but India practically merely finances its own people and its own trade?—Yes.

1434. (*Mr. Keynes.*) In Appendix A., II., to Appendix VII. (pp. 230-1) you quote the terms which are offered for the purchase of gold in transit from Egypt; has anyone ever taken advantage of those terms?—Yes.

1435. In large quantities?—Yes, in considerable quantities.

1436. Recently?—Our offer has not been open recently. I think the last time we withdrew our offer was somewhere about 1910, and it has not since been renewed. Before that happened there were considerable purchases of gold in transit from Egypt.

1437. The document I am quoting from is dated August 1910, and it is stated that it is in force "until further notice." It has been withdrawn, has it?—Our offer was withdrawn in August 1910, and it has not since been reopened.

1438. That was in the same month in which it was offered. Is it your impression that it was withdrawn almost immediately?—I think it was. The note I have here is that it was renewed in March 1910, and withdrawn in August 1910.

1439. The substantial point is that there is at present no offer for purchasing gold in transit from Egypt?—No.

1440. What were the reasons for the withdrawal of this order?—I think that it has not been thought necessary further to increase the stock of gold that is held in London now. We had last year about seven millions here, and we now have about six millions in the paper currency reserve.

1441. The order was deliberately withdrawn with the object of making more gold flow to India?—It was adopted with the object of drawing gold to London without the expense of shipping it from India.

1442. It was withdrawn with the object of making more gold flow to India?—You may put it that way; or not drawing more gold to London.

1443. (*Sir Shapurji Broacha.*) You overdrew to the extent of 18 to 22 millions in the years 1910, 1911, and 1912; I suppose during those years there were a good many windfalls from opium, the railways, and other quarters?—Yes. I would like to give you some figures

* See Appendix IX., page 289.

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on that point. In the three years, 1910-1, 1911-2, and 1912-3, the net receipts from railways exceeded the Budget estimates by 6,800,000*l.*, and those from opium by 6,400,000*l.*; so that there were excess receipts above the Budget estimates in those three years of over 13 millions under those two heads.

1444. You could use that money here against any borrowing?—Yes.

1445. And against paying off what you had borrowed and what was due?—Yes.

1446. Suppose that in the course of years the revenue and expenditure adjust themselves and become evenly balanced, and yet you have to sell Council bills on trade account, how will you adjust matters then? I suppose you could take something from the silver reserve and from the other reserves, but still you could not have used that balance here?—I think I might venture to say this—supposing the conditions you mention, in which there is no surplus of revenue over expenditure, that would indicate trade conditions in which there would not be such a demand for the Secretary of State's drawings. The demand for his drawings depends upon the activity of trade, and if there were no surplus, there probably would not be such active demands.

1447. Suppose you had budgeted for an active demand and a very prosperous trade, it might turn out to be a little more perhaps than you anticipated, but not to the extent of 18 to 20 millions?—The Secretary of State would restrict his drawings to what the Government of India were able to remit.

1448. Are you not bound to supply trade to an unlimited extent at the gold point?—The Secretary of State undertakes to sell bills without limit at 1*s.* 4½*d.* and transfers without limit at 1*s.* 4¾*d.*, and to do that he draws upon the currency reserve, that is to say, he would transfer gold from India to England under the Gold Note Act, in other words, he would earmark the gold to the currency reserve here against his drawings.

1449. On either side you do not go beyond 1*s.* 3¾*d.* either in buying or selling?—We do not sell under 1*s.* 3¾*d.*

1450. And that is the kind of cost that there would always be as between one country and another; whether it were the United States, or India, or France, that adjustment must always come?—Yes.

1451. The Secretary of State does not bind himself to maintain the exchange at the par of 1*s.* 4*d.*, does he?—He has an understood obligation to maintain exchange at 1*s.* 4*d.*

1452. But he is not under an obligation?—That is rather a difficult question to answer. I should say that at present he recognises the obligation to maintain exchange at 1*s.* 4*d.* to the best of his power.

1453. If the Secretary of State thinks his power of maintaining the par of exchange is sufficient, why is he afraid to guarantee; is he not confident of his own remedies?—I think he is.

1454. Then, where is the harm in guaranteeing?—It is rather a difficult thing to express a guarantee absolutely on that point.

1455. I suppose there are two parties to a bargain; here one is not very confident and does not guarantee, and the other wants a guarantee; why should not the first one give the guarantee?—I think that is rather a difficult question for me to answer. I would not like to commit the Secretary of State on such a matter.

1456. You must remember that in India the par of exchange has been absolutely necessary at any period in the history of her finance, and if that is not guaranteed will not India be injured?—I would say to that that I think the present system does command confidence in its stability.

1457. It almost does, but does it do it absolutely? If it could be done absolutely, why does the Secretary of State not guarantee?—I do not see how it could be done absolutely. I think that the resources for maintaining the stability of exchange are growing from year to year, as gold goes more largely into circulation and as the volume of the gold standard reserve increases. I think we should be more ready to meet a great crisis than we were in 1907-8—as time goes on, still more so.

1458. All that is right, but we want the absolute guarantee, otherwise we say, do what we ask you to do, and that is accumulate gold in a liquid form. The Secretary of State refuses to do that beyond a certain amount. If he does that, he must have confidence in his judgment, and if he has confidence in his judgment, why should not the Secretary of State guarantee the par of exchange for all time?—I think that he endeavours to do that as far as he has power. I think the view taken is that a holding of sterling securities, particularly short-dated securities, serves the same purpose as the holding of gold.

1459. Is it not his intention, of course, not expressed but implied, to economise the use of gold in India as much as possible?—I think the Secretary of State has no desire to economise the use of gold in India. Subject to his being able to draw from India what it is right to draw to meet the home charges and to avoid debt, he allows gold to go into India as freely as the balance of trade will allow it to go. Subject to the restriction I have mentioned, there is no desire on the part of the Secretary of State to discourage the free influx of gold into India.

1460. I believe that; but there is a part of the correspondence that we have before us from which it appears that sometimes the Secretary of State is very nervous about disturbing the gold market in London. The Secretary of State must know that there is an impression in India that that is his idea; and when India wants all the surplus profit in gold, there is that idea lurking in their minds?—I can only repeat that the view which has been taken here is that the surplus profits from coinage are as useful to support exchange if held in realisable gold securities as if held in gold; but as you know, he has decided now to accumulate gold here in the gold standard reserve until the amount reaches five millions. As regards his otherwise discouraging the flow of gold into India, I could only point to the figures of the last two years as showing you to how very large an extent gold has gone into India.

1461. You say India could easily take up a loan of about two millions?—That, I say, is the present standard, but, as I said in reply to another member of the Commission, I think India could meet a larger loan than that probably.

1462. Do you know that loans were issued for five crores as early as 1879?—Yes.

1463. I think there is a difference of 9 per cent. to-day between the 3½ Per Cent. Sterling Loan and the 3½ Per Cent. Rupee Loan?—I know there is a large difference.

1464. So I think it would be safe to say that loans could be raised in India to the extent of five crores?—I think that is very likely.

1465. (*Sir James Begbie.*) In your note you talk about the method of drawing funds from India to meet the home charges; have these home charges of recent years included special disbursements in connection with the currency?—I should not include those exactly in the home charges. There have been several remittances on account of currency, but I should rather treat those as opposed to home charges. Our usual definition of home charges is charges upon revenue, and we treat revenue charges as distinct from capital expenditure, and also currency remittances.

1466. You do not include the purchase of silver, do you; that is paid for from the balances in London, is it?—That is sometimes paid from the home balances in the first instance; last year, for instance, our purchases were made from the balances.

1467. And you do not include that as part of the home charges?—It is a matter of language whether we treat it as exactly part of the home charges or not. I should say it was outside the home charges in the usual sense of the term. Of course it has to be met, and it adds to the amount of drawings which we can budget for. The amount of silver bought swells the balances of the Government of India by the amount of notes that are issued against it, and that renders the Government of India *pro tanto* able to meet so many more millions of drawings by the Secretary of State.

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1468. At any rate, those payments on account of silver, for example, do not come out of the ordinary revenues of India?—No.

1469. In former years there was considerable anxiety about laying down funds in London by means of Council bills, was there not?—Yes.

1470. In recent years there has been no such anxiety, with the exception of 1907 and 1908?—No.

1471. Would it be possible to separate the sales of bills to meet the ordinary home charges from sales connected with the currency?—I think they are separated, and that you will find them shown separately in the accounts of the Government of India.

1472. In the case of sales of bills there is only one amount shown—amount of bills sold?—I think when there is a remittance on account of currency you will find that is shown separately in the accounts; for instance, two or three years ago, when the invested portion of the reserve was increased by two crores, from 12 crores to 14 crores, there was a sum of 1,333,000*l.* remitted home; and that I think you will find shown in the accounts separately from the ordinary drawings of the Secretary of State.

1473. That is in the accounts, but it is not presented. At the time the sales are made there is nothing to indicate whether you are selling against currency or against the Treasury, is there?—No.

1474. That is a point I would like to ask you—whether it would be possible to separate the sale of Council bills drawn against the Treasury from those drawn against the currency reserve?—I do not think we could do that at the time we are doing it. We could not allocate them exactly. When we sell, say, 60 lakhs in one week, it would not be convenient to draw 40 lakhs of those on account of the Treasury, and say 20 lakhs represent part of the sales towards bringing home two crores of the currency reserve.

1475. Do you mean that it would be a disadvantage from a bookkeeping point of view?—There would be no great advantage in it; I do not think it would be very convenient to attempt to do it.

1476. (*Chairman.*) When such a transaction takes place, do you always decide how the proceeds of particular bills are going to be applied before you sell the bills?—We allocate a particular quantity of the sales at the end of the year to a particular purpose; that is to say, when we arrive at the end of the year and we have drawn more than we budgeted to draw, a part has been represented by, say, two crores remitted home for investment on account of the paper currency reserve, and we show that separately; but we could not allocate it to the sales of a particular month.

1477. (*Sir James Begbie.*) It is left until the close of the year to do that?—Until it is shown in the accounts.

1478. You say in paragraph 14 of Appendix VII., pp. 218-9, "the present system of regulating the "amount of the drawings for each year" is so and so; can it be said that the amount of the drawings in recent years has been regulated by the system you describe?—Yes.

1479. There have been very wide differences between the estimates and working results, have there not?—Quite so.

1480. You do not work to the estimates?—We keep to the estimates very largely, as you know; but if it is found later in the year that the balances of the Government of India will be so much larger than they anticipated, then they will be able to remit a large additional amount.

1481. On the question of regulating the sales of bills throughout the year, I understand you think it might be possible for the Secretary of State to restrict his drawings during the first half of the financial year to an almost insignificant amount, and to meet almost the whole of his requirements during the second half when he might sell his drafts at a higher rate than they would command in the dull season. Do you refer to the bills drawn to meet ordinary Treasury expenditure?—I am there talking of what might be taking place in a year of favourable seasons and trade. It might be possible, if those favourable con-

ditions could be foreseen, to do so, but then it is a large assumption, and one cannot foresee; we do not know until the monsoon is established what we may be able to draw.

1482. The statistics you give us show that, except in a very unfavourable year like 1907-8, you could reasonably expect to make the greater part of the remittances at a better rate of exchange?—Yes, that is so.

1483. Do they also show that, with the same exception, you could rely on the money being obtained in London?—Do you mean that the demand would be sufficient?

1484. Yes?—I suppose it would be in a good season.

1485. In the last 10 years these statistics, I think, seem to show that, with the exception of one year?—In most years, yes; but as I have explained in this note, there is a great uncertainty about the monsoon, and it is safer not to rely upon being able to draw the whole of our drawings, or almost the whole of our amount, in the latter part of the year, when exchange may be expected to be higher. It is safer to draw some in the early months of the year, even when exchange is somewhat lower. It may be also necessary for our Treasury purposes, because we have large outgoings week by week, and very particularly large ones when the payment of the interest on the loans falls due. We hardly could work without drawing a considerable amount in the first six months of the financial year.

1486. Do you view with some anxiety the monsoon failing, as you might not be able to sell bills?—That is one consideration. The other is, as I say, that we must obtain some funds from India, even in what we may call the lean half of the year, to keep up our Treasury balances. These drawings on the Secretary of State's bills are practically our only source of revenue.

1487. At the beginning of the year your resources now are very much larger than they used to be years ago, are they not?—Not so much this year, I think. We began this year with a balance of a little over eight millions, I think.

1488. I was thinking of the general position as regards the gold standard reserve; in the case of an unfavourable year you would be in a much stronger position now than ever before, would you not?—Quite so; but we do not want to fall back upon the resources of the gold standard reserve if we can help it.

1489. You refer to instances when the Government of India find themselves in a position, towards the end of the financial year, to remit home funds far in excess of what was expected when the estimates were framed; and you state that you consider such excess funds properly applicable towards the reduction of the Secretary of State's borrowing operations for capital expenditure?—That is so.

1490. Do you think it is necessary that these excess funds should be drawn upon by the Secretary of State during the financial year in which they arise, and before the total is realised?—I should say that it was advantageous to draw them when the exchange was strong enough to enable us to do so, otherwise we might pile up unduly the amount that we have to draw in the following year. For instance, our budgeted drawings for this year are something over 21 millions, which is a larger amount than we have budgeted for before, I think; supposing we had drawn less last year, we should have to draw so much more this year, and we should be all the more in danger of not being able to get a good rate for our drawings.

1491. Do you still entertain the same anxiety as formerly regarding the ability of the market to take up the bills?—I think we cannot be without some degree of anxiety. As you say, in recent years the exchange has gone very well, and we have had no difficulty about drawing all that we wanted at a good rate, but we can never be free from apprehension. At the present time the exchange has fallen to 1*l.* 3*3*/₄*d.*, and until we are quite sure of a good monsoon, we cannot tell that we may not have a bad Autumn for our drawings, as in 1907-8. Therefore, I think we are right in drawing a

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considerable amount, as much as we can, at a reasonable rate of exchange, even in the early months.

1492. Should not the disposal of your excess funds be the subject of discussion in the Viceroy's Legislative Council before they are drawn upon?—I think that can be done.

1493. So far it has not been done?—I think it has been raised in the Viceroy's Council, has it not?

1494. In paragraph 20 of Appendix VII., page 220, you refer to the events of May to September last year, when over seven millions in sovereigns were imported, for the purpose of showing that if Council Drafts were held up to secure the rate of 1s. 4½d., the Secretary of State might miss his market. Would it be possible for the Secretary of State to obtain information in London as to whether sovereigns were available in Australia for shipment to India, and to what extent, and also the rate at which they could be laid down in India?—I think it is a very varying rate.

1495. Yes, but you could keep yourselves posted, could you not?—I do not know how far we could ascertain, or how far it can be foreseen.

1496. You cannot foresee it, but you can keep yourselves posted from day to day as to what is the gold point of exchange from Australia, can you not?—Yes, we can.

1497. Is that done?—I cannot say that that is carefully watched.

1498. The same remark applies to the shipment of gold from London. You mention a case where sovereigns might be shipped in competition with council bills at 1s. 4¾d. It is a matter of the gold point is it not?—I suppose so.

1499. And the gold point is not entirely a fixed point, but varies from time to time?—Quite so.

1500. So that if you wanted to work close up to the gold point, you could do it if you wished by keeping yourselves informed of the actual gold point from time to time?—I think in practice we do keep in touch with the gold point; that is to say, we discover when gold is going from Australia or from Egypt, and at what rate we must sell in order to compete with it.

1501. In the case of those bills sold to bring home the gold standard reserve money, you did not work up to the gold point upon that occasion, did you?—Certainly not; because I think the importance of bringing home that large amount which had been transferred to India, and of getting our gold reserve back to this country, was considered to out-weigh the importance of only selling at 1s. 4d., or at any other particular point.

1502. You do not think, then, that such sales interfere with the gold standard?—I do not think that they do, so long as they do not cause exchange to drop below the gold point. As I have said already, I think before the end of the year exchange had quite recovered, and was quite at par, or above par.

1503. But for the time being, while you were working under par, that was working against the gold standard policy, was it not?—I hardly think so, because we were pursuing the object of getting the gold standard reserve funds to this country where they would be useful to meet another really serious decline in exchange.

1504. In paragraph 21 of Appendix VII., page 220, you refer to instances when the demand for the Secretary of State's drafts far exceed the amount he can draw from the Indian Treasuries without reducing their balances below a safe limit, and you go on to deal with the sales of bills drawn for other purposes than for meeting the home requirements of the Government; is the principal reason to assist trade?—I think that bills sold when the Government of India cannot actually meet them from their Treasuries, must be said to be bills sold for the convenience of trade.

1505. But you would not say that it is the principal reason?—I would say that that is the only reason for going on selling when we have drawn up to the extent of the maximum that the Government of India can meet from their Treasuries; when we go beyond that, it is drawn for the convenience of trade alone, I should say.

1506. Another reason for the excess drawings is that the accumulation of sovereigns in the paper

currency reserve in India causes inconvenience?—Yes, it serves the purpose of meeting that.

1507. Is that due to the fact that sovereigns do not pass into circulation in sufficient quantity to absorb arrivals?—I suppose that is so.

1508. If sovereigns went into circulation, there would be no accumulations in the reserves?—That is so; but, as I said a little while ago, I think that the accumulation of gold in the reserves in India is not regarded with apprehension in the way that it was some years ago. We are content now to allow gold to accumulate as much as it can in the course of trade, so long as we retain a sufficient amount of silver in the reserves.

1509. But you sell bills for the purpose of preventing gold going out to India if you think you have got enough there already?—We have done at times.

1510. You say the Secretary of State's telegraphic transfers afford the means which no other mode of remittance does of relieving in a very short space of time a money stringency which otherwise might become serious and even disastrous to Indian trade?—Yes.

1511. Does that not express only one side of the position?—It expresses this side, that our sales of bills or transfers do release funds from the balances of the Government of India which otherwise would be held up.

1512. If they ease the money market by releasing funds, can it not also be said that in holding up the money, Government causes a stringency?—Government holds up the money automatically in the collection of revenue.

1513. And that has an effect on the market?—Yes, it is money taken off the market, clearly.

1514. With regard to the sale of bills relieving the money stringency, money stringency may be relieved in two ways—by increasing the supply of money or by reducing the demand for it?—Yes.

1515. Is it not the latter method which operates in the case of council bills sales?—I hardly follow that.

1516. It is done through council bills?—Yes.

1517. The people who buy council bills are exporting firms and exchange banks?—Yes.

1518. They lay down money in India for the purpose of buying bills or buying produce?—Yes.

1519. In a stringent money market the holders of produce are obliged to sell; I mean, that it is the tendency of a tight money market to compel the producer to sell his goods?—Yes.

1520. The people who buy the goods are the exporting firms?—Yes.

1521. And the exchange banks buy the exporters' bills?—Yes.

1522. So that a stringent money market compels the holders of goods to sell, and so to reduce the demand for money?—Yes.

1523. Council bills come in and pay for the goods that are sold; therefore you reduce the demand for money?—I am afraid you are beyond me there.

1524. What I wanted to be at is this, that the council bills, when they have gone out to India, have an effect in time of relieving the stringency of the money market when it exists, but that is done through the fact that the people who are borrowing from the banks are obliged to sell their goods?—That is where I am afraid I cannot quite follow you.

1525. In paragraph 30 of Appendix VII., page 223, you enumerate several advantages in selling drafts to meet the convenience of trade. The first is that "it serves to avert or relieve extreme stringency in the money markets of India, which would be detrimental to the commercial prosperity of the country." Is the council bill system really entitled to all the credit you give it? Is it not because the balance of indebtedness is due to India that remittances are wanted for India?—Yes, that would be so.

1526. If Government did not sell bills, specie would be remitted to pay for the balance, would it not?—Yes.

1527. So that Council bills are not really a necessity?—They are not a necessity, because the alterna-

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tive would be the shipment of gold; but I suppose that the Council bills afford a more convenient mode of remittance—especially when the demand for remittance is very urgent and pressing—than the shipment of gold.

1528. The second advantage which you mention is that "it serves to check excessive accumulations of gold in the Paper Currency Reserve in India which might otherwise have to be lightened by expensive methods." This trouble, of course, arises from the fact that there is no effective gold currency in India?—It arises from the fact, I think, that you must have a certain supply of silver, and some of that gold must be converted, or may have to be converted, from time to time into silver.

1529. But there would be no objection to holding gold in the reserve of the Paper Currency Department if it moved freely into circulation, would there?—No.

1530. The third advantage which you state is that "it serves sometimes to avert extreme stringency in the London money market which would be created if the Secretary of State, by refusing to sell drafts for the convenience of trade, forced large quantities of sovereigns to be taken from London for India," and so on. Is it an advantage to have the Secretary of State placed in the position you describe of either being obliged to sell bills or being left open to the charge of forcing large quantities of sovereigns to be taken from London to India?—I do not think that that charge quite applies.

1531. The transactions which bring about such a situation are not transactions of the Secretary of State, are they?—I am not sure that I quite follow your argument there.

1532. You are here talking about the Secretary of State, by refusing to sell drafts for the convenience of trade, forcing large quantities of sovereigns to be taken to India; and I am asking whether it is any advantage to put the Secretary of State in a position when that can be said about him?—It may be under certain conditions an advantage to India that he should be able to avert an extreme stringency in the London money market which would react upon India.

1533. But does that not put the Secretary of State in the position that if he does not sell, people will say he is forcing gold into India?—I think it is part of the system. He cannot help the situation, in fact.

1534. (Lord Kilbracken.) The fact is, it puts a certain responsibility upon him, does it not?—It does.

1535. Which he exercises, as he does, for the good of India?—Yes.

1536. It is part of the system, and he is willing to be responsible?—Yes.

1537. (Sir James Begbie.) You do not support by any examples the doctrine that free sales of Council drafts for the purpose of averting serious disturbance of the London money market may at times be fully justified, and indeed urgently required in the interests of India?—As a frequent borrower on the London market?

1538. Is it not a doctrine which may be interpreted differently by different people, or even by the same person at different times?—I think that is a question to which I cannot help saying yes.

1539. You talk about averting a serious disturbance of the London money market; when you come to exercise your discretion in that way, how is the stringency in the money market measured; is it a question of the height of the Bank of England rate?—That would be a good criterion of it, I suppose.

1540. In the last three or four years you have had very large sales of Council bills—unusually large sales—and at times the bank rate has not been high?—That is so.

1541. How has the stringency effect come into operation then?—I think we may in such cases treat our large sales without reference to stringency in the London money market. They have not been made with any view to averting stringency, but they have been made for the revenue purposes of the Secretary of State, or his Ways and Means purposes simply.

1542. Do you think that Council bills are always an advantage to the London market?—I should say that they were an advantage at times, not to the London money market in particular, but to persons engaged in trade with India.

1543. We are dealing here with the London money market; do you think it is an advantage to the London money market that bills should be sold?—I think so, in so far as they may prevent a large efflux of gold from the London money market, which might bring about a very high bank rate.

1544. Is it not possible that the sale of Council bills may at times operate detrimentally to the London market?—I daresay.

1545. Take the case of the purchase of silver for coinage last year. Is it not the case that the need for silver coinage arose because the stock of rupees in the currency reserve in India was below the point you thought it ought to be at?—Yes.

1546. There was too much gold and too little silver, really?—I would not say there was too much gold, but the stock of silver was falling unduly low.

1547. Then the decision was come to to buy silver for coinage, and that purchase was made, I understand, by means of money provided from Council bill sales?—Yes.

1548. These Council bills were sold to lay down money for this purpose, and were paid for in India from the paper currency reserve?—It practically comes to that. They were paid for out of the balances of the Government of India, and those balances were strengthened by the notes which they were able to issue against the new silver.

1549. The silver, when coined, replaced the money in the currency reserve which had been issued in the payment of the Council bills?—Yes.

1550. That silver was an addition to the total currency, was it not?—Yes.

1551. But at the time the decision was arrived at to coin fresh rupees, what was needed was a substitution of rupees for gold in the reserve, was it not?—We might do it either way. We might have taken gold from the currency reserve in London to pay for the silver, in which case, of course, there would have been no expansion of the note circulation; or we might do as we did, buy the silver immediately from balances, which led to the circulation being increased by the amount of new silver.

1552. As a matter of fact you did sell Council bills?—Yes.

1553. If a portion of the gold held in the reserve had been used to pay for the silver, there would not have been an addition to the total currency, would there?—No.

1554. By the use of sales of bills to pay for the silver, the London money market had to find the money to pay for that?—In a way, yes.

1555. The amount was over seven millions, was it not?—Yes.

1556. Would it not have been a greater advantage to the London money market to have received the gold to pay for the silver purchases?—Yes.

1557. So that it was no advantage in that case to the London money market to sell the bills?—It was no advantage to the London money market, but I think there was no occasion to consider the London money market in this case.

1558. During the time you were buying silver last year, were the India Office balances lent in the market also being reduced?—Yes, they were reduced by the amount that we paid for the silver.

1559. During the same period there was about 7½ millions of gold added to the currency reserve in India?—Gradually, yes; that was in addition to the seven millions of silver.

1560. So in that case it cannot be said that the sales of bills operated in the direction of averting disturbance in the London money market?—I do not know; is not "disturbance" rather too strong?

1561. I do not wish to use too strong language. As a matter of fact, do you not think all these different operations caused some pressure in the London money

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market?—I hardly think so. It was spread over a long period.

1562. That is so far as the London money market is concerned. Is it not possible that the Indian public may have some ground for complaint that the currency was being overweighted by that operation, it being an addition to the currency when it was not necessary?—It is a question, I suppose, whether it was necessary.

1563. Is it not possible that the Indian public might have cause of complaint?—That might be so. I think the difference between buying that silver by using up gold and not immediately expanding the note circulation, and buying it from Treasury balances and so expanding the note circulation, might have only a temporary effect; that is to say, in the one case we would take the seven millions straight out from the gold of the reserve here in London, and in the other case, by doing as we did, our increased sales of Council bills to pay for this silver must reduce the amount of gold that would otherwise go into India, and, therefore, *pro tanto*, obviate a further expansion of the note circulation. Taken in connection with the influx of gold, the immediate effect was to increase the currency reserve very greatly, but I do not think the ultimate effect would be to increase it so much.

1564. That accounts for the very large accumulation of cash in the Government of India's treasuries?—Yes, that is so; in other words, if we had not sold bills in payment of all this silver we should have sold part of those bills in drawing home the Treasury balances.

1565. When you sell Council bills to avert stringency in the London money market, the great advantage to the London money market is when you sell against Treasury balances in India, is it not?—I do not think so, but perhaps I do not quite follow you.

1566. In the case of silver, for example, you draw bills to buy silver, and you spend that money at once?—Yes.

1567. In the case of bills drawn against the Treasury, you may keep your money for a long time?—Yes.

1568. So it is only when you are drawing bills against the Treasury that you give any advantage to the London money market?—That is so, I suppose.

1569. In recent years there have been very high balances caused by these big sales, have there not?—Yes, more directly by these big sales, and those big sales have been caused by the very large Indian surpluses.

1570. Of course the money is provided for by the Indian taxpayer?—By the Indian taxpayer, yes, but not by extra taxation.

1571. You have referred, in paragraph 32 of Appendix VII., page 224, to the transfer, by means of Council bill sales, of about two millions from the gold standard reserve in India to London in about 1910 and 1911; can you explain why that amount was drawn to London?—The way that arises is that besides drawing back the proceeds of the sales of bills upon India, we drew to this side some portion of the six crores that have been held in silver.

1572. Can you explain why that was done?—I could not explain at this moment why that was done, but I will look it up, if you like.*

1573. I should like to know, if it is convenient to you?—The amount held in India was reduced by that process from six crores to 290 lakhs.

1574. The transfer was a departure, was it not, from the intention, as explained when the Indian branch of the reserve was formed?—It was for the time being, yes.

1575. It also meant an addition to the currency in India at that time?—That is so.

1576. Although there was no addition necessary then?—Yes.

1577. You have explained that last year there was a remittance of 1,200,000*l.* for profits of coinage from India to England; can you explain why the profits were coined into rupees?—Part of the profits

were coined into rupees to restore that six crore reserve which had been held in India before those 310 lakhs were remitted home. It was the desire of the Government of India and the Secretary of State that that six crore reserve should be restored; so as soon as we began coining rupees last year the profits were transferred to that silver portion until it was brought up to six crores. After that, the amount was converted into gold, and, as I say, it was this balance of 1,200,000*l.* which was remitted home.

1578. That did not exhaust the whole of the profits, did it?—Those two items together I think account for the whole of the profits. The 310 lakhs, which were added to the 290 lakhs already held in India, brought up the amount again to six crores; and then there was the 1,200,000*l.* which was transferred home.

1579. You have explained why the three crores were coined into rupees, but what about the balance; why was that coined into rupees?—Because the normal procedure is to hold all the profits of coinage, with the exception of those six crores that are held in silver, in gold or gold securities.

1580. Why should it be coined into rupees?—The rupees were coined, but then against those rupees gold was set aside and remitted home.

1581. We have not got the point why you coin the profit into rupees. Why is it necessary to coin the profit into rupees?—What else would you do with it? The seven millions worth of silver produces 15½ crores of rupees; of that, 105 lakhs or thereabouts represent the equivalent of 15 rupees to the *l.* on the seven millions of silver coined. The remainder is strictly profits, but it is by custom converted into rupees, and there is no other way in which you can hold it very well.

1582. We have had the suggestion made that if you draw the seven millions from India, that means that you have to replenish in India 10½ crores; and what you ought to do, is it not, is to buy enough silver to coin 10½ crores, and then the difference between the cost of silver that you buy and the seven millions is the profit, and is in sterling already?—I think it may be said that the actual amount required was the 15½ crores, only that is produced partly in the shape of a direct addition to the note circulation and partly in the shape of profits. Of those profits, part goes to replacing the silver portion, or the Indian portion of the Gold Standard Reserve of six crores, and the balance comes indirectly into the Paper Currency Reserve—it is coined rupees, and against it gold is set aside and the value remitted to this country, where it is held in gold.

1583. When you coin the profits into rupees, you give the profits to the Gold Standard Reserve?—Yes, we credit the Gold Standard Reserve with the value of those rupees.

1584. You put the rupees into the reserve and take the gold out?—Yes.

1585. Then you get no profits upon the coinage of those rupees, because it is a substitution of rupees for gold?—I think not. I think we increase the Gold Standard Reserve by the value of those extra rupees. We pass the additional rupees into the balances, but the Government of India remit home the equivalent amount, and that is placed to the Gold Standard Reserve here.

1586. (*Chairman.*) In gold?—Yes, in gold.

1587. (*Sir James Begbie.*) You refer in one or two places, for instance, in paragraphs 31 and 32 of Appendix VII. (pp. 223-4), to the elasticity in the paper currency system; that elasticity is not automatic, is it?—I think it is automatic as far as the gold proportion is concerned, because when trade is good gold flows automatically into India, and goes into the currency reserve and increases the note issue, so to that extent the currency is elastic. The only part of the note issue of the currency that can be called absolutely inelastic is the silver portion.

1588. You say that people can get gold for notes in India; can you say how many places there are in India where those exchanges can be made?—I could not say off-hand at this moment how many places there are, but I can give you that figure if you like.*

* It was done in order to relieve the balances of the Government of India from being unduly depleted by meeting the Secretary of State's drawings.—F. W. N.

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1589. (Mr. Gillan.) What you say in Appendix VII., paras. 21 and 22 (pp. 220-1), about the practice followed in the sale of Council bills might be read, I think, as showing that the system is rather an artificial one?—Yes.

1590. At any rate that it is founded to a very great extent on the interests of trade; I think that was shown by some questions put to you by the Chairman?—Yes.

1591. In your evidence given this morning I think you spoke about the regulation of the amount of gold going into India?—Perhaps I should not say "regulation." There is no deliberate intention to regulate it, but of course the effect of the Secretary of State's sales is, not intentionally but necessarily, to decrease the amount of gold that goes into India.

1592. May I put it to you in this way, that if any of his drawings are not in pursuance of Government requirements, then to that extent he is keeping gold out of India undoubtedly?—He may be.

1593. He is, is he not?—He may be doing one or two things—he may be keeping gold out of India, and he may at the same time be putting gold into the currency reserve here, as, for instance, when he earmarks gold.

1594. Let us consider the Treasury balances first. If he is drawing in excess of his own requirements he is to that extent keeping gold out of India?—Yes.

1595. On the other hand, if his drawings are in pursuance of his own interests or of Government interests, then, even if he is keeping gold out of India, his action is not open to criticism?—May I remark upon the phrase "his requirements"?

1596. I will come to that later, if you will allow me; that is the position, as I am putting it to you, is it not?—Yes.

1597. Granted that his drawings are in pursuance of his requirements, then you have the two currents which the critics and the Government would desire to have, namely, (1) gold going out to India, and (2) gold coming here; that is so, is it not?—There are two different sets of critics.

1598. I am assuming that the drawings of the Secretary of State are in pursuance of his requirements; either he desires to draw bills or to bring gold home, and to that extent it would not be an interference with the flow of gold to India which is open to any criticism. I am asking your opinion; do you agree?—I see what you mean—yes.

1599. Could you say that the Secretary of State, as a matter of fact, brings home a single rupee that he does not intend to use?—No.

1600. I think Mr. Abrahams has shown in his memorandum that there may be periods during which the Secretary of State has held very high balances, but that, going up to the end of the present budget year, the budget closes with a minimum balance?—The Indian balance, do you mean?

1601. And the home balance?—Yes.

1602. So, assuming that estimate of the current budget to be correct, all the money that has been brought home will, by the end of this year, actually have been used?—Yes. We budgeted for balances of about 12½ millions in India and a little over four millions here, and those can both be considered minimum balances.

1603. Will you say that the drawings have, as a matter of fact, been justified in every case by Government interests quite apart from trade interests?—I would not say always quite apart from trade interests, as I think the point at which the Secretary of State sells in the interests of trade only and without regard to Treasury considerations at all only comes in when he sells as under the Gold Note Act against currency and when the Government of India have not—

1604. Excuse me, I am at the moment on Treasury balances?—Very well; so far as we draw on Treasury balances I do not think we do it in the interests of trade only; we do it in our own interests.

1605. That is the point I am putting to you, that, during the last three or four years the drawings in every case have been justified by Government interests apart from trade interests, although I am not saying

that trade interests were not concerned or that they did not benefit?—I should say that they have been justified.

1606. You make a distinction apparently in the case of the currency drawings?—Yes.

1607. But there, also, is it not the case that the Secretary of State draws money home because it is his policy to hold a certain amount of the currency gold at home?—Yes.

1608. But for that policy he would not draw through currency, would he?—I think he would. I think in 1898, when this plan of drawing through currency was first started, the object was at that time to convenience trade by selling bills and transfers at the maximum price, at a time when the Government of India were not able to meet them from their treasuries.

1609. That is to say, it was a part of the policy to hold some of the currency gold at home, was it not?—I think not. I think that was a superadded idea of a later time. If you remember, the intention of the Gold Note Act of 1898 was that the Secretary of State should hold gold for a time until he should choose to send it back to India or pass it into his balances against a corresponding transfer from Treasury to currency reserve in India.

1610. As a matter of fact, in the last few years has the amount of currency gold held at home been in any case excessive?—No, I think not.

1611. If it had been done in the interests of trade, would there not have been the consequence that the Secretary of State would have held more gold in the currency at home than he wished to hold for his own purposes?—Yes, it might be so.

1612. That is what I am putting to you. Do you consider that the currency gold held at home has been excessive, as a matter of fact, from the point of view of the Secretary of State's own requirements?—Certainly not.

1613. I wish to ask you now about the effect of Council bills on the money market of India. I think you said in answer to the Chairman that the drawing of Council bills does not reduce the amount of currency available in India?—Yes.

1614. But you also stated, later on, that you were not at the time considering the question of loans being given by the Government in India?—That is so.

1615. The two things are very much interconnected, are they not?—Yes, they are.

1616. I am not sure that in the answer you gave the Chairman you were not assuming that nothing would take the place of the Council bills. If there were not a system of Council bills, then the funds in payment of the balance of trade would have to be taken into the country in some other way?—Yes.

1617. At the same time the amount of the balance held by the Government of India would be so much the larger?—Yes.

1618. And that larger balance they might lend out in the Indian market?—Yes.

1619. So that the two systems do not come to the same thing?—No.

1620. You would actually have more money available in India if you did not draw on the Government of India by means of your Council bills?—Certainly there would be more money in India, but unless the Government of India departed from their present practice and lent out that money, there would not be more in the market, would there?

1621. That is precisely why I put it to you that, putting aside that question of lending, if you combined the two things, you would have more money?—Yes, if the Government of India lent also, there would be more money.

1622. Considering this exchange business that is done by the Government of India, the holding of a big balance at home in England, the lending of their balance, the holding of a very large balance in India, and the remittance business that they do in the internal trade of the country; you would agree, would you not, that the Government at present do, as a matter of fact, run a very big banking business?—Yes, I suppose we may put it so.

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[Continued.]

1623. And there would be reasons for considering any scheme that got that banking business on commercial lines, that is to say, apart from the Government part of it?—Yes.

1624. (*Sir Shapurji Broacha.*) When the rupee coins are depleted in the currency, and the Secretary of State in consultation with the Government of India decides that they require more rupees in the currency department, they make up their minds to coin a certain number of crores of rupees, 10, or whatever it may be?—Yes.

1625. Suppose they make up their minds to coin $4\frac{1}{2}$ crores of rupees to meet the necessities of the currency department, then they would buy two millions of silver to make that $4\frac{1}{2}$ crores of coins, which would consist of 3 crores for the currency department and $1\frac{1}{2}$ crores for the gold reserve?—Yes, approximately.

1626. So 3 crores go into the currency for circulation and $1\frac{1}{2}$ crores are sent in the shape of gold here to act as the Gold Standard Reserve?—Yes.

1627. Therefore, when the Government of India coined this year $15\frac{3}{4}$ crores or 16 crores, that was required for the purposes of currency, according to your calculations?—Yes.

1628. You bought seven millions of silver and you put $10\frac{1}{2}$ crores into the currency department, and $5\frac{1}{2}$ crores you have got back in gold here?—No, not $5\frac{1}{2}$; 310 lakhs went into the silver branch in India in the shape of rupees held in the Gold Standard Reserve, not in the Paper Currency Reserve.

1629. The profit of that was brought into the Gold Standard Reserve?—Yes; the whole profits go into the Gold Standard Reserve.

1630. So of course you do not coin more rupees than you require?—No.

1631. Of which for book-keeping two-thirds goes on account of currency and one-third is transferred in gold to London?—Yes, approximately. The exact fraction of the profit depends upon the price of silver, of course.

1632. But the Gold Standard Reserve gets its share of gold?—Yes.

1633. And whatever the requirements are for the currency you coin so many rupees?—That is the intention.

1634. But you cannot divide it up except according to your requirements?—That is so.

1635. (*Chairman.*) I want to call your attention to the second section of paragraph 11, Appendix VII. (page 218). Mr. Keynes was asking you about the paper which you put in which is headed "Conditions on which the Secretary of State for India in Council is willing until further notice to purchase sovereigns in transit from Australia or Egypt." You refer to that, I think, in this paragraph 11, where you say that it shows "the conditions under which sovereigns sometimes are purchased"; I understand from your evidence that that is scarcely quite correct?—It has been true in the past. What I said was that the offer to purchase in transit had been withdrawn in the year 1910 and had not been renewed since then.

1636. Were these conditions only in force for a few months in that particular year?—The offer was originally made in December 1905; then it was withdrawn for a time and renewed. It was withdrawn in June 1906; it was renewed in January 1907 and again withdrawn in March 1907; and it was once more renewed and again withdrawn in 1910. Since then it has not been renewed.

1637. In your paper do you give the conditions in the form in which they were last issued?—In the form as revised in August 1910 in which they would be issued if they were issued now.

1638. We want you to turn now to the note on the Paper Currency Reserve (*see Appendix VIII.*). Would you tell me what was the reason for the transfer to the Government of the monopoly of note issuing in 1861?—As I have stated in my note, the Presidency banks had been issuing notes for over 20 years before the introduction of the Paper Currency Act of 1861, but those notes had not been legal tender; the total issues had been limited to five crores of rupees, but the actual

circulation appears to have been considerably less and it was confined almost entirely to the three Presidency towns, I think paper money was almost unknown in the greater part of India. I have got here a copy of the speech of the Finance Member of the Government of India in introducing the Bill for the establishment of the Paper Currency Reserve. That sets forth in great detail the advantages of a paper money generally, and also the advantages of managing that by Government.

1639. Will you give me the name of the Finance Minister?—That was Mr. James Wilson, who went out as Finance Member of the Governor-General's Council in the autumn of 1859. He had previously discussed the matter with Sir Charles Wood, the Secretary of State, and he went out and set himself at once to the task of introducing an effective paper currency.

1640. (*Sir Robert Chalmers.*) He had been Financial Secretary to the Treasury, I believe?—Yes. If you will allow me, I will hand in a copy of Mr. Wilson's speech (*see Appendix X., page 294.*)

1641. (*Mr. Keynes.*) Is it not the case that Mr. James Wilson died almost immediately?—Yes.

1642. And that the actual Bill brought in was considerably different from what he proposed?—Yes.

1643. So that he is only responsible for the original drafting of the Government measure?—Yes.

1644. And not in any way for the actual terms of the Act?—That is so. Perhaps I might say in brief terms what were the arguments that Mr. Wilson adduced in favour of a Government paper currency. He said that in order that a paper currency should fulfil all the purposes of coin it was necessary that it should be legal tender everywhere except at the place of its issue; and the securities for payment of the notes must be absolute and undoubted. If a bank were charged with the issue of notes, it would have to be required not only to deposit securities which would ensure the ultimate payment of the notes, but also a proper reserve of bullion to secure their prompt and immediate payment. He did not think it would be practicable for any bank such as could be established in India to comply with these requirements, consistently with its duty towards the great body of its creditors. The system was only practicable in the case of the Bank of England, owing to its very large capital and the absolute separation between its banking and issuing departments. The Government of India, he said, proposed to take the issue department of the Bank of England as their model. Not only would such an issue department possess a security greater perhaps than that of any bank issue in the world, but there would be a large direct profit to the State from the interest derived from the fiduciary portion of the reserve and an indirect advantage in the improvement of the Government credit from the purchase of securities for the paper currency reserve. I should mention that Mr. Wilson's Bill did not become law without considerable modifications, the principal being that the lowest denomination of note was fixed at 10 rupees instead of five, and that the fiduciary portion of the reserve was limited by the Act, as passed, to four crores of rupees instead of two-thirds of the note circulation as proposed by Mr. Wilson.

1645. (*Chairman.*) What is the present proportion of the fiduciary issue?—The present proportion of the fiduciary issue is about 20 per cent. of the whole of the note circulation.

1646. The actual amount of the fiduciary issue has been steadily increased from time to time, has it not?—Yes, it was originally limited to 4 crores, then it was raised to 6 crores in 1872, to 8 crores in 1890, to 10 crores in 1896, to 12 crores in 1905, and to 14 crores in 1911. The 12 crores were to include 2 crores of securities of the United Kingdom or securities issued by the Secretary of State for India in Council, and the 14 crores, 4 crores of such securities. That is the position at the present time.

1647. There has been, as you say, a steady increase in the total amount of fiduciary issue; has the proportion grown or does it remain about the same?—The proportion is decidedly low; it is lower than it has

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been, I should say, at any time; it is about 20 per cent.

1648. It has been as high, I think, as 40 per cent. ?—In 1874 it was as much as 61 per cent., but the whole amount of the note issue was much smaller then; now it is larger.

1649. What is the table to which you are referring at the moment?—It is Table I. of Note I. to Appendix VIII. (pp. 248-9).

1650. (*Sir Robert Chalmers.*) Could you tell us the class of securities in which Mr. Wilson proposed the fiduciary issue should be invested?—I think his proposal was that they should be securities of the Government of India, as they were, as a matter of fact, at first.

1651. (*Chairman.*) I understand that the non-fiduciary portion of the reserve was held in silver up till 1893?—Not entirely; there was a period during which a portion of it was held in gold.

1652. Before 1893?—Yes. The Paper Currency Act of 1861 provided for the issue, under notification of the Government of India, of notes against gold coin or gold bullion. A notification of that kind was issued under the Act on the 23rd November 1864, directing that Government currency notes should until further notice be issued at currency offices and agencies of issue, in exchange for sovereigns and half-sovereigns calculated at the rate of 10 and 5 rupees—10 rupees for the sovereign—to an extent not exceeding one-fourth of the total amount of issues represented by coin or by coin and bullion in each circle. At the same time another notification was issued to the effect that until further notice sovereigns and half-sovereigns would be received at Indian treasuries in payment of sums due to the Government as the equivalent of 10 and 5 rupees respectively, and that sovereigns and half-sovereigns would also be paid at the same rates to any persons willing to receive them in payment of claims against Government. If you will look at Table I. of Note I. to Appendix VIII. (pp. 248-9), you will see that as a consequence of the first of these notifications gold was held in the Currency Reserve on a small scale in 1864-5 and a few subsequent years, but apparently ceased to come in after 1870-1, the fall in the price of silver rendering the notification a dead letter. I have here copies of these notifications.

1653. In the early stages the whole of the reserve was held in India, was it not?—Yes.

1654. But in 1898 a portion of it was held in London?—Yes.

1655. Originally as a temporary measure?—Yes.

1656. What was the reason for that?—The reason was the excessive demand for the Secretary of State's bills which the Government of India were not able to meet from their Treasury balances; at any rate, not able to meet conveniently from their Treasury balances. The object of this Act (Act II. of 1898) was to enable them to meet the drawings for the convenience of trade from the Paper Currency Reserve, the Secretary of State setting aside gold to the Paper Currency Reserve in London to the same extent that the Government of India took out money from the Paper Currency Reserve in India to meet his drawings. That was the beginning of the holding of gold in London.

1657. Should I be right in saying that to that extent the Paper Currency Reserve was used to supplement the deficiencies of the Gold Standard Reserve?—Hardly, I think, but to supplement the deficiencies of the Indian treasuries.

1658. The inability of the Indian Treasury to meet the demands of trade?—Yes.

1659. Was the step required by the necessities of the Secretary of State, or was it wholly caused by his desire to meet the demands of trade?—The arrangement was made in communication with the Government of India. I think that the Government of India were quite as urgent in desiring this legislation as the Secretary of State was.

1660. At that time gold was not legal tender, I think?—No, it was not legal tender until the following year—1899.

1661. Practically the effect was the same as an increase of the fiduciary issue of notes?—It was

similar to that; so was the notification of 1893 under which gold notes could be issued against gold in India.

1662. (*Sir Robert Chalmers.*) Was the difference more than this, that gold was not in 1898 actually legal tender, but was merely received?—That is so. It was received at the value of 15 rupees to the £, but it was not legal tender until 1899.

1663. That had been the case since about 1893?—Yes.

1664. (*Chairman.*) Then this measure of 1898, which was at first adopted as a temporary provision, was extended by the Act of 1900, and subsequently made permanent by the Act of 1902?—Yes.

1665. On what grounds?—Here I might perhaps read to you an extract from the speech of the Finance Member of the Governor-General's Council in introducing the Bill in 1900.

1666. Will you give us the name of the Finance Member again?—That was Sir Edward Law. He said: "The silver from which the rupees are to be coined naturally has to be bought, and under the provisions of the present Act the Secretary of State has been obliged to use his Treasury balances—the resources outside the Paper Currency Reserve—for the purchase of that silver, and this has caused considerable difficulty. Being unable to touch the funds in the Paper Currency Reserve we were obliged to find fresh money for our purchases, and the result was that we were locking up money in two different places at one and the same time for one and the same purpose. We were holding gold which, owing to the requirements of the Currency Reserve, we could not touch, and we were holding silver to be coined into rupees to be put, when coined, into the Currency Reserve in place of that gold. The proposals now made will enable us to consider silver bought for coinage as forming part of the Currency Reserve and will enable the Secretary of State to use the gold in the Currency Reserve for the purchase of silver. At the exact moment when the gold in the Currency Reserve is converted into silver the silver bullion, which is in equally safe keeping, takes its place as part of the Currency Reserve. . . . This arrangement will be a great convenience and save us the necessity of finding money for the purchase of silver." The provision in the Act of 1900 is: "The silver bullion so purchased shall, until rupees are added to the Currency Reserve under clause C of this subsection, take the place of the gold so expended as security for the currency notes issued."

1667. The next step in the history of the reserve, I think, is the Act of 1905?—Yes. What I was reading from was the speech on the introduction of the Act of 1900, which was not the one that made the system permanent, but the one which extended it for a time and also provided for the purchase of silver from the gold held in the reserve. Then there was an Act of 1902 which made the previous Act permanent.

1668. Was it brought forward for the same reason?—For the same reason. Also at that time the advantage had come to be realised of holding gold in this country as a support of exchange in a time of crisis. That was adduced then as one of the arguments for making this system permanent.

1669. The primary object of the Gold Standard Reserve is to support exchange?—Yes.

1670. To that extent I was right, was I not, in saying that this use of the Currency Reserve is to supplement a deficiency in the Gold Standard Reserve?—Yes, to supplement it.

1671. If the Gold Standard Reserve were greater, would there be any good, from the point of view of exchange, in using the Paper Currency Reserve in this way?—No. If one could regard the Gold Standard Reserve as absolutely sufficient—we hope it may be some day—then the need for holding part of the Paper Currency Reserve in London would to some extent disappear; but that convenience would always remain of having gold here which we could convert at once into silver without keeping money lying idle for any time.

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1672. The reasons which were given by Sir Edward Law?—Yes.

1673. The Act of 1905, I think, enlarged the list of securities that could be held on account of the Paper Currency Reserve; was that not so?—Yes.

1674. Will you tell me briefly what new class of securities it introduced?—Sterling securities, that is to say, either British Government securities or the sterling securities of the Secretary of State in Council—sterling loans.

1675. What was the reason for doing that?—It was thought that in a currency crisis in India, when there was a run upon the currency, probably rupee securities would be much more affected than sterling securities. That was the reason set forth in the Financial Statement of the Government, and I have got a copy of a quotation on that point if you would like to have it (see paragraph 7 of letter from the Government of India dated 18th August 1904, Note II. to Appendix VIII., page 255).

1676. I need not trouble you to put it in if you would give me the reason?—That, in fact, is what the reason was.

1677. Then in 1911 a further Act was passed, which limited the amount of British Government securities that could be held; was that not so?—Yes. It rather raised the limit. The limit under the Act of 1905 to the amount of sterling securities had been 2 crores out of a total of 12 crores, and this Act raised the limit to 4 crores out of a total of 14 crores.

1678. What principle governed those several limits, by what rules or by what instructions were they fixed?—What governed the relationship of the whole of the fiduciary portion to the whole of the note issue, I think, was a general idea of a proportion—two-fifths of the active circulation, or something of that kind. As regards the limit to the sterling portion of the invested part of the reserve, I think the idea was that while the Government regarded it as desirable to hold a portion of the fiduciary reserve in sterling securities, they had no intention of going in that direction beyond a moderate limit, and there was no intention of buying sterling securities in displacement of any part of the rupee holding. They did not want to transfer the whole invested portion, or anything like the whole, from rupee securities into sterling securities.

1679. How is it settled how much gold shall be held in India and in London respectively on account of the paper currency reserve?—I think that that has only been settled from time to time, without any established proportion between the two. As I was saying this morning, I think the tendency lately has been rather to look with much more favour upon a large holding of gold than formerly, and that now the position is this—that if we hold a sufficient supply of silver according to the formula adopted a few years ago, that is to say, if we have 24 crores in all, 18 crores being in the currency reserve and six crores in the gold standard reserve, at the beginning of the busy season, and if we have not less than 17½ crores in the two combined at the end of the busy season, of which at least 15 crores would be in the currency reserve—subject to that, and to having 14 crores, as at present it is, invested, the amount of notes issued against gold may increase automatically to any extent that gold flows into the country in the course of trade.

1680. The gold which is held in London in the paper currency reserve is, I understand, ear-marked at the Bank of England; is that so?—Yes.

1681. What is the precise process by which that is effected?—We write a letter to the Bank of England asking them to set aside a certain sum amounting to so many hundred thousands of sovereigns to a deposit account of the Secretary of State called the gold deposit account of the paper currency reserve. That is against the Secretary of State's cash balances, of course. Then we at once inform the Government of India that that has been done, so that simultaneously they will issue notes against that sum so set aside.

1682. Does the bank make any charge for that?—Not for the actual process of earmarking, but they make a small charge of $\frac{1}{32}$ d. per cent. per year for holding the gold. That is all they charge.

1683. Have they always made a charge?—Yes. I think at first when the amount held was smaller they charged $\frac{1}{16}$ d., then when the amount was increased to about five millions and it was arranged that the usual holding should be as large an amount as five millions, they reduced their charge to $\frac{1}{32}$ d., which has been in force ever since.

1684. What do you regard that charge as being payment for? Is it for the cost of storage room, or what?—Storage room, and, I suppose, safe custody.

1685. I think I have seen it suggested that the presence of this earmarked gold in London is really taken into account by the City and by people who are responsible for the London gold reserves generally, and that the earmarked gold is regarded as a possible source of relief in a crisis here; what do you say to that?—I think that is rather an alarmist impression. I suppose the suggestion is that, if the Bank of England reserves of gold were very short, the Secretary of State might conceivably agree to release gold held by him at the Bank of England against an equivalent credit to his cash balances. The result would be equivalent to a remittance of Treasury balances from India to England against a corresponding transfer of currency reserve from England to India. The Government of India would have to transfer from their Treasury balances to their currency reserve a sum exactly equivalent to the sum transferred in the converse direction here. I do not think there is any reason to fear that any such transfer would be made between the Treasury and the currency reserve unless it could be justified in the eyes of the Indian public as being in the interests of India.

1686. Then reference has been made to a reserve of ingots?—The ingot reserve was a reserve that was held for a certain time in India in the shape of silver ingots which had gone through certain stages of preparation for coinage but were not coined. This reserve was held in a shape in which it was convertible into rupees at about five days' notice, and it was held as part of the currency reserve; consequently notes were issued against it, at the rate of 15 rupees to each 17. worth of silver. I confess I do not quite appreciate the value of this form of reserve, and it was superseded in 1906 by a reserve of coined silver, namely, 600 lakhs of rupees, being held outside the paper currency reserve, that is, in the gold standard reserve.

1687. Then there is no ingot reserve to-day?—There is no ingot reserve now.

1688. In paragraph 33 of Appendix VIII. you quote from the financial despatch to the Secretary of State, which says: "From first to last our only practical difficulty has been the timely provision of rupees, and notwithstanding various improvements of method that difficulty still remains, and as recent experience has again shown, it constitutes a real danger" (page 245)?—That expressed the Government of India's view of their difficulties.

1689. How did that arise?—I think it was in this way: The Government allowed themselves to get very dangerously short of rupees in 1900. As you know, the policy was, after the closing of the Indian mints, to refrain from any new coinage until the silver reserves had run down quite low; and that was persisted in until 1900. Then the supplies were found to be seriously short, and coinage had to be undertaken in a hurry and to a large extent. At several other times between 1900 and 1906, when that passage was written, although the stock of rupees in the currency reserve was not excessively low, the drain on it was sufficiently severe to create nervousness and apprehension in commercial circles as to the sufficiency of the stocks. Perhaps I might say that the difficulties of the Government of India were as much on account of the apprehension of their reserves falling too low as upon finding those reserves practically and actually too low.

1690. Has there ever been any actual difficulty in supplying the demand?—I think in 1900 there actually was.

1691. But not since that time?—Not since that time. Sometimes the drain of rupees out of the currency reserve has been so rapid that it has led

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to apprehensions that there might not be enough rupees.

1692. The demands on the currency reserve are very uncertain, are they not?—They are very unequal, that is to say, in a season of very active trade there is a very large outflow of rupees during the active months of the year, and a partial return during the dull season; on the other hand, in a season of bad trade like 1908–9 there is nothing but a return of rupees from circulation the whole time, so that you get a very great and excessive accumulation, as I have set forth in my note, of rupees.

1693. Owing to the large restriction in the currency brought about by natural causes?—Yes.

1694. It has been suggested that the opening of a central bank for India and the transfer to it of the management of the paper currency would be an improvement; have you anything to say as to that suggestion?—It is a very large question, and I feel great diffidence in expressing an opinion upon it. It seems to me that some of the arguments that were urged by Mr. Wilson in favour of a currency managed by the State perhaps still hold good, such as the view that you would not get in India a bank with a very large capital capable of earning a profit and large enough to be entrusted with this very large and growing currency. The amount of currency note circulation in India has now got up to 69 crores, which represents 46 millions in sterling; if this goes on it will very soon be as large as the whole note issue in this country. It is a very large circulation indeed.

1695. Supposing it were possible to create a central bank of sufficient strength to bear that responsibility, would you see any advantage in its being transferred to such a bank?—I think that rather raises the question whether the present system is defective, and what are the defects in the present system. Perhaps the Commission will hear more evidence on that point.

1696. I was putting my question to you rather as an administrator. Do you think that the Secretary of State would be glad to be relieved of a portion of the responsibility which now falls upon him in these matters?—I am not sure; I hardly think that he would. I have seen a central bank advocated rather as a means of restricting the flow of gold into India, and that is a point of view that I cannot understand exactly, because though I can understand that extended banking facilities would economise the use of gold in India perhaps, I do not see how that could check the influx of gold into India which was required by the balance of trade.

1697. From what you have said it is clear that the use of notes has been very much extended in India in recent years?—Yes, very much.

1698. The extension has been almost in geometric ratio?—It has.

1699. That is all to the good?—I suppose that is all to the good. I think it has been very largely due to the universalisation of some of the denominations of notes, making them encashable outside their own circle.

1700. Are they now encashable over the whole of India?—They are with one or two exceptions. There are one or two notes that have not been universalised yet.

1701. Now I want to ask you some questions with reference to something you said this morning. You have just told me that you consider it an advantage to have a large note circulation?—Yes, I do.

1702. This morning you said in reply to Sir Shapurji that the Government of India and the Secretary of State had no desire to discourage the free influx of gold into India?—That is so.

1703. In answer to Sir Ernest Cable you went a little further, and I think you said that you would wish everything to be done to encourage gold to go into circulation?—Into circulation, yes.

1704. Why? You have a paper currency and you have a silver token currency, and you say it is very desirable that the paper currency should be increased as much as possible; then why do you want to increase the gold currency?—Because in India I go on the

idea that so far as gold might displace rupees in circulation, the exchange would be on a sounder basis.

1705. That would only be the case if the gold which was in circulation was available for the support of exchange in a time of crisis?—That is so.

1706. Does your experience lead you to think that it is so available?—Certainly the experience of 1907–8 and 1908–9 does not show that it was used to any large extent for that purpose, but one cannot help hoping that if it became more widely in circulation it would serve that purpose.

1707. A great deal of gold was issued in that time probably through the Treasuries?—A good deal was issued, but the Government of India found themselves obliged to restrict the issues, as the drain upon their gold reduced it to such a very small quantity that they were not able at one time to meet all the demands upon it.

1708. I think we have had it in evidence that over 4½ millions was actually issued?—That is so.

1709. And that not more than a quarter of a million was exported?—I think that is so.

1710. Would it not appear from those circumstances that the gold which is issued in a time of crisis does not support exchange?—Yes. That was rather the experience of 1907–8.

1711. There is always a certain tendency to hoard the precious metals in India, is there not?—Yes, there seems to be.

1712. Does the history of that crisis and of the dealings in gold at that time, support the idea that in a moment of crisis the tendency to hoard is even greater than usual?—I do not know; I am not sure that the evidence shows that.

1713. At any rate, it does show that as far as it can be traced very little advantage was derived at that time for the support of exchange from the gold in circulation?—Yes.

1714. And that the gold which had gone into circulation had either remained in circulation in India or was hoarded?—Yes.

1715. But was not used to support exchange?—That is so.

1716. Do you still think that it is of real importance to increase the gold circulation in the hope of supporting exchange?—I cannot help thinking that the more gold supersedes silver in circulation, the smaller is the necessity for coining silver and the whole circulation gets more nearly on a gold basis. Then any coining of silver, one must remember, depletes our resources of gold which we hold for the support of exchange, that is to say, if we buy silver to be coined into rupees by directly taking out gold from the currency reserve here, that directly weakens our gold resources; on the other hand, if we pay for the silver by the sale of Council Bills, that has, I think, the same effect, only in a more gradual way, because the larger our drawings to pay for that silver, the less gold will go into India for some time.

1717. Of course at a moment of crisis like that, the currency would be restricted, naturally?—I do not think that the currency was so very much restricted at that period, because silver came back very largely from circulation into the reserve.

1718. The amount of silver in circulation would be less at a moment of crisis than it had been in the last prosperous year before?—Yes, the amount in circulation would be.

1719. Therefore, the Secretary of State would not be buying silver at that moment?—No.

1720. Did not the answer you gave me just now depend upon the assumption that the Secretary of State would be buying silver at that time?—I did not mean that he would be buying in a crisis like that. I meant that the greater the extent to which the sovereign supersedes the rupee in circulation the smaller will be the general need for the coinage of rupees, and the less will be the permanent perennial need for coining more rupees.

1721. On the other hand, the more the sovereign goes into circulation and displaces the rupee, the less

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[Continued.]

gold you will have immediately available in your paper currency reserve?—Yes, that would be so.

1722. Would not any advantage that you get from the greater amount of gold in circulation be counter-balanced by the disadvantage of having less gold immediately available in your reserve?—It looks as if it would be so.

1723. Is not gold in your paper currency reserve of greater use to you, at any rate, for the maintenance of exchange in a time of crisis than gold in circulation?—I must admit that that seems to be so.

1724. Thinking the matter over, do you still hold that it is to the interests of the Indian Government to induce people to put gold into circulation?—I would not like to say it was to their interest to induce people to put gold into circulation exactly.

1725. I quite understand; you would desire to give them whatever they want?—To give them every facility, as, in fact the Government does now.

1726. Do you think on reflection that it is better for the Government of India and for Indian interests if they take gold out, or if they take silver?—I must say I am not quite convinced that a large quantity of sovereigns in circulation would not be a good thing if the balance of trade is sufficient to maintain a large stock in the currency reserve as well.

1727. (*Lord Faber.*) Pursuing the argument of the Chairman at this moment as to what I would call the different kinds of money, I suppose you will agree with me in thinking that there are practically four kinds of money in use now—(1) silver, (2) gold, (3) notes, (4) best of all, cheques?—Yes.

1728. Do you agree with me in thinking that the worst of these is silver, because it is so very bulky, and that if you have to pay everything in silver it is not convenient for trade, and therefore gold is better than silver because it is much less bulky?—That is so.

1729. Notes, again, are better than gold, because notes are handier and it saves the wear and tear of the gold, and you can cover the notes?—Yes.

1730. Then again there is the cheque, which is better than everything else, and is the system we have at home practically?—Yes.

1731. So that really one of the arguments in favour of gold as against silver is that it is much more easily handled?—Yes.

1732. I suppose the very fact of earmarking gold and advertising it as being ear-marked places it outside the market at home, and the market knows it?—Certainly.

1733. (*Sir Robert Chalmers.*) What profits do you make on an average from the note issue of the Government of India?—Do you mean from the invested reserve?

1734. What profit is there on the issue taken as a whole, net?—The receipts consist almost entirely of the interest on the investments. The invested amount is 14 crores, that is to say, 9½ millions sterling. I cannot say exactly at what prices all those securities have been bought, so anything we say would have to be a rough estimate. In the year 1911-2 the receipts amounted to 306,802L., the charges to 155,536L., and the net profit to 151,266L.

1735. Anyhow a substantial profit is made from the note issue which is in the hands of the Government?—Yes.

1736. Were the issue handed over by the Government to a bank, with that presumably would go the profit in whole or in part?—Yes.

1737. Do you see any particular reason for handing over that profit?—Personally I must say I do not.

1738. Now about the securities; in the main they are rupee securities in India, are they not?—Yes.

1739. Supposing, which Heaven forbid, there were a run and people wanted actual legal tender coin in lieu of their notes, do you conceive that it would be possible to realise to any large extent in India the Indian rupee securities held against the note issue?—I am afraid any very large realisation on the Indian market would depress the price very seriously.

1740. Conceivably you could imagine the case where you might not be able to realise them at all?—

That is an argument so far as it goes in favour of holding the larger part in sterling securities

1741. That question leads to the general question of realisability in the great hour of need, and that question leads to this—that you want as regards India or any other country to have your securities in the greatest international market?—Yes.

1742. You take that view, do you?—That is the conclusion, I think.

1743. Historically, you may not be very familiar with this, or you may, but I suppose Mr. Wilson put the fiduciary issue into Indian Government securities on the analogy, with which he was very familiar, of the Bank Acts of 1844 and 1845?—Yes; and also, I think, the argument weighed with him very much that the purchase of Indian securities from time to time would improve the credit of the Government of India in the Indian markets.

1744. Would you go so far as to take the view that the issue of notes means a profit, and that there is in theory no more reason why a bank should issue notes to profit than it should issue token coins at a profit?—I am hardly prepared for that question.

1745. (*Sir Ernest Cable.*) Did I understand you to say in answer to Lord Faber that you considered gold more suitable for the needs of the people of India?—No. Lord Faber's point was that gold is more portable and less bulky than silver; and that one must admit. If you ask whether silver is on other grounds more suitable for India, of course there is this to be said—that the Indian people want a small denomination of coin. One great difficulty in the way of the sovereign going widely into circulation is that it is so large a coin and of such high value. They want a smaller unit.

1746. I was only trying to bring out the point that the great bulk of the transactions in India are very small?—That is so.

1747. Even down to, we will say, 4d., which would maintain a family for one day?—Yes.

1748. Therefore silver is more suitable for the internal needs?—It is more suitable in that way, and so would be notes of small denomination, particularly the 5-rupee note.

1749. So there is no particular need to encourage the use of gold in India for the benefit of the people?—From that point of view, no.

1750. Of course the institution of a gold mint in India would be bound to encourage the use of gold if it was successful?—Yes. I do not, however, think that a gold mint would greatly increase the supply of sovereigns in India.

1751. (*Mr. Keynes.*) Recent legislation, by making notes up to 100 rupees universal legal tender, has almost entirely abolished the necessity for the old circle system of issue, has it not?—I should hardly think that.

1752. What purposes does it now serve?—I do not see exactly how you could dispense with the circles of issue. You have not got absolute universalisation of all the notes, as a matter of fact.

1753. Now that they are universal legal tender up to 100 rupees, it would make very little difference to universalise them completely?—Yes.

1754. What purpose does the circle system still serve?—Is it not an advantage? I should have thought it was an advantage to have a comparatively large number of different offices from which a note could be issued.

1755. Certainly; I was not meaning to limit the number of offices; I was suggesting that you should abolish the division of the offices into different circles—that you should make of India one circle, but that you should retain the existing number of offices; would there be any objection to that?—I am hardly prepared to offer an opinion on that.

1756. No objection occurs to you at the moment, does it?—No.

1757. The demand for currency in India is very seasonal, is it not?—Yes.

1758. In other countries a seasonal demand is met by increased cheque currency or note currency against temporary security, is it not?—Yes.

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[Continued.]

1759. For instance, in Germany or in France bills are discounted by the State banks and notes issued against them, are they not?—I understand that is so.

1760. But in India nothing of the sort exists, so that there is complete inelasticity?—Yes.

1761. Would you be of opinion that this was partly responsible for the high bank rate at certain times of the year?—I am not sure that that is so, because, as I have said before, the note issue does really expand with great elasticity in times of active trade as a consequence of the influx of gold.

1762. When more notes are issued, the Government only changes one form of currency into another, does it not?—Yes.

1763. But it does not increase the total volume of currency?—Surely the volume of currency is increased by imports when the sovereigns come in, or are imported from abroad.

1764. No doubt the import of sovereigns increases the currency, but the changing them into notes does not increase it, and the issue of notes against sovereigns does not increase the volume of currency?—I should have thought it would, myself.

1765. I do not think we are in disagreement; I am merely saying that the volume of currency cannot be increased except in so far as people bring fresh currency into the country?—That is so.

1766. Whereas in France or in Germany there is another way of increasing currency, namely, by issuing more notes against temporary security?—Yes.

1767. I am asking whether the absence of that provision in the Indian system may be partly responsible for the high rate of discount at the busy season?—It may be so.

1768. If notes could temporarily be issued in the busy season against some temporary security, the volume of currency would be increased and seasonal stringency might be diminished?—That is so.

1769. (Sir Robert Chalmers.) Subject always to the use of cheques?—Yes.

1770. (Mr. Keynes.) You are assuming the possibility of the increase of cheques is not very great in India?—Yes.

1771. (Chairman.) As to the part which cheques play in the Indian currency, are they an important factor?—They are not a very important factor, I fancy, but other people can much better tell you about that than I can.

1772. (Mr. Keynes.) Outside the Presidency towns, I should be right in saying, should I not, that there is no means at present of increasing the currency except by importing it from abroad?—Yes; by the natural influx of gold, or by the artificial import of silver.

1773. Would you be in favour of some change in legislation by which the note issue could be used to supply the necessary elasticity after the French or German model?—As I say, it is not a question on which I feel able to offer any very definite opinion. I think you will always have great fluctuations in the Indian bank rate—an 8 per cent. rate in the winter and a 3 per cent. rate in the summer seems to be a regular seasonal thing.

1774. At present?—Yes, at present; formerly the rates used to be very much higher.

1775. I meant by "at present" under the existing system?—Under a similar system formerly the rates were very much higher. Under the present system of the free influx of gold, and the free expansion of the note circulation, the fluctuations in the bank rates are very much smaller than they used to be.

1776. I might get, perhaps, at the same point in another way. The fundamental principle which underlies the paper currency reserve was adopted at the time when the Bank of England note system was orthodox, and where there was little or no experience of any other system. Is not that so?—Yes.

1777. While the Indian system has since lapsed, if I may say so, into something rather different, and though some modifications have been deliberately introduced from time to time, the general principle underlying the note issue has never, in the past 60 years, been fundamentally reconsidered?—No, I suppose not.

1778. There is now a great deal of experience drawn from various European countries of note issues regulated on quite different principles?—Yes.

1779. If the principle of the note issue in India were rather radically altered in the light of European experience, might not that much needed element of elasticity be acquired in some degree?—I suppose that might be so.

1780. These possibilities have not been considered, but, *primâ facie*, there are advantages which might conceivably be attained by some such modification?—I think that is so.

1781. You would acquiesce in that view?—Yes.

1782. (Sir Robert Chalmers.) You cannot use your credit more than once; that, perhaps, is a general proposition you might agree to?—Yes.

1783. If you use it in the form of notes, you cannot use it in the form of cheques?—I suppose that is so.

1784. (Sir Shapurji Broacha.) At present the note circulation is 68 or 69 crores?—Yes.

1785. The reserve against that is composed of 14 crores of securities, 16 crores of rupees and about 38 crores of sovereigns?—That is so.

1786. At present there is no restriction to give gold against either notes or rupees, is there?—There is no restriction.

1787. Of the 38 crores of gold, you have 9 crores in England?—About that.

1788. And they are ear-marked?—Yes.

1789. If they want those 9 crores back in India, is there any reason in it?—I see no reason why India should want those 9 crores. India has quite an abundant stock in the currency reserve on which they can draw freely.

1790. There can be no reason for asking for the 9 crores, unless there is a want of confidence in the Government of England?—Yes.

1791. They could not make any use of it so long as it is ear-marked, whether it is in India or here?—No, it would serve no other purpose than as security for those notes.

1792. I suppose the whole debt of India, including railways, is about 500 millions?—I dare say you are right.

1793. Of which only 30 millions is held in India?—More, I think. The total Government debt including railway debt is about 274½ millions, of which nearly 88 millions are held in India.

1794. India is a debtor country. Do you know that Russia has 60 millions in gold here and in France because of her foreign debt?—I dare say.

1795. And so has Japan lodged her gold here because of her foreign debt?—Yes.

1796. I suppose England holds all except about 80 millions of the 500 millions of the debt of India, and Indians hold not more than 30 millions, so I think it is right that a good portion of the gold should remain in England. The only reason that could be advanced for asking to keep the gold in India would be a sort of want of confidence—nothing else?—Yes.

1797. I see in to-day's "Times" that you have put some gold standard reserve money into securities during the last month?—Yes, there has been a change of investments.

1798. I thought we had an assurance from the Secretary of State that he was going to put 5 millions into liquid gold?—He is doing so.

1799. So he has not commenced going back?—Not at all. Any change in the investments that has been made in the last month or two has been merely an exchange from one investment into another, and no part of that stock of gold which is in process of accumulation at the Bank of England has been taken out. It is the intention of the Secretary of State to go on increasing that from the profits of coinage and from the interest on securities held, until it reaches 5 millions.

1800. Can you tell me any possible advantage India would derive by forcing gold upon them so long as a rupee is 16 annas?—I do not see any object in forcing gold upon the people.

* Thursday, June 12th, 1913.

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[Continued.]

1801. Then why did the staff of the Secretary of State and the staff of the Government of India say we should like to see the gold better circulated?—I think there is a difference between those two points of view—liking it to be better circulated, and pressing it upon the people. I think there is no desire to press it upon the people.

1802. I think at present it is not within the bounds of possibility, but suppose a gold currency were made in India, that would mean that you were to give gold against all demands?—Yes, it would.

1803. I think you know that there is a tremendous quantity of rupees in India which have been coined in the present century?—Yes.

1804. Do you think if people were to tender them against gold, the gold would suffice?—No.

1805. People say, "Let us have a gold currency," but a gold currency means that the Gresham Law would come into being; that is to say, that the cheaper metal would drive away the dearer metal, because you know gold is better, and it is better liked every year in India?—Yes.

1806. But we have not a store of gold at present to make a gold currency?—That is so, we have not.

1807. (*Sir James Begbie.*) You gave us particulars of the coinage of silver last year, and in section 1 of paragraph 29 of Appendix VIII. (page 243) you say there was a coinage to the extent of about 1,575 lakhs of rupees carried out last year; could you give us the quantity and average cost of the silver, and how the rupees were coined or disposed of and found their way into the reserves?—Yes, I could. If you would like a statement laid before the Commission I will put it in.*

1808. (*Mr. Gillan.*) In paragraph 6 of Appendix VIII. (page 240) you say the invested portion of the reserve is now "14 crores of rupees, of which 10 " crores are represented by securities of the Government of India, and 4 crores by securities of the " British Government." In dealing with the proportion of sterling and rupee securities the Government of India in their letter of 18th August 1904, I think, gave certain reasons for increasing the sterling investment which appear in Note II. to Appendix VIII. (pp. 255-74)?—Yes.

1809. They said that in the event of a serious financial or political crisis occurring in India the rupee securities would inevitably be depreciated and difficult to sell, "while it is probable that sterling securities " would not be so seriously affected owing to the " greater capacity and solidity of the London market." They also said "the position of sterling securities " would carry the further advantages that the proceeds " would be receivable in London, i.e., in the market " in which if more rupees were required we should " have to buy silver, and in which also if gold were " required for strengthening exchange it would make " itself felt." Do you agree with those reasons?—I think there is great force in them.

1810. Do you think this proportion, of 10 and 4, which at present obtains is a good proportion, or would you be inclined to increase the sterling investments?—I would say the sterling portion was large enough at present. After all, it is very much a question for the Indian authorities, I think, to consider, but my own personal opinion would be that a further increase might be made to the rupee portion.

1811. The total investment is 14 crores; how is that determined—how is the limit fixed?—The initiative is generally taken by the Government of India. They write home to the Secretary of State after consultation with the Presidency banks, and they compare the ratio borne by the invested portion of the reserve to the average total circulation gross and net of the three previous years, or the two previous years, with the ratio borne by the one to the other at the date when the last increase of the invested portion of the reserve was made. And then they usually suggest an increase to bring the invested amount up to something like the same proportion of the whole that it bore when last the change was made.

* This statement was not eventually asked for.

1812. In paragraph 46 of Appendix VIII., page 247, you say, "a further increase of the invested portion of the reserve will no doubt soon become practicable"; going on the principle that has been followed in the proportion of investments to the total circulation, it would be possible, would it not, to make an investment now—immediately?—Yes, I should say so.

1813. A considerable investment?—The present proportion of the investment is very low indeed; it is only about 20 per cent.

1814. That would be immediately practicable?—I should say so.

1815. Would you prefer that that should be invested in some permanent form such as is the case at present, or should it be maintained in order to be available for lending out in India?—I should think the preferable course would be, that it should be invested either in rupee securities or else in sterling short-dated securities in this country. I think that the Secretary of State would not be likely again to adopt the practice that was adopted some time ago of investing in Consols or permanent securities, but he would prefer short-dated securities, if the securities were sterling ones. I think there is great deal to be said in favour of adding to the rupee investments.

1816. From what you said to me previously, I understand that you do not think it is desirable to increase further at present the sterling investments?—No. My private opinion rather would be in favour of adding to the rupee investment.

1817. I think Sir Robert Chalmers put it to you that there was a certain danger in adding to the rupee securities, and you agreed with him?—Yes, but one cannot overlook a consideration which I put in this way: Having regard to the large number of notes always held by the Government, I think the danger of a run on the reserve of such dimensions as to exhaust first the metallic reserve, then the sterling securities, and then to trench on the rupee securities is so remote that the danger of adding to the rupee-invested portion is not very serious.

1818. What is the particular advantage in your view of adding to the rupee security instead of to the sterling security?—My impression is that it would be more popular with the Indian people and that it would rather improve the market for rupee securities.

1819. The Chairman asked you what happened to the gold that was taken out of the country in 1907-8. There are figures in the Comptroller-General's Report for 1910-1, which include the receipts in sovereigns of Post Offices and Railways (page 13); I do not know if you have got that Report?—No, I have not that by me here.

1820. Those figures show that up to 1908-9, there was a matter of a couple of millions received in the Post Offices and railways jointly, and that it amounted to about 300,000*l.* in 1909-10. What conclusion would you draw from that, taking these receipts as an indication of the amount of gold that was in circulation and in use as currency?—I suppose the indication rather would be that gold went into hoards.

1821. You said in answer to the Chairman that small notes up to 100 rupees are now encashable all over India?—That is so.

1822. That means really that they are encashable at eight centres?—Yes.

1823. The legal obligation to give coin for notes obtaining only in those eight places?—Yes.

1824. There is a liability, is there not, for the notes to go to a discount at any other place?—I was not aware of that.

1825. Since there is not a legal obligation to pay cash for them in any other place, that is what one would expect, is it not?—I suppose it is; but I have not thought of that.

1826. Would it not be a favourable thing for the note circulation if the facilities for encashment were increased, and if there were a large number of centres where cash and notes were freely exchanged?—Yes, I suppose it would.

1827. Then there is the point which Mr. Keynes put to you about the elasticity of the note system;

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[Continued.]

the Indian system at present is entirely wanting in elasticity, is it not?—Perhaps it is going rather far to say it is entirely wanting in elasticity if it expands so readily with the influx of gold; but I see Mr. Keynes' point.

1828. You agreed, I think, with the Chairman that the increase which has taken place in the note circulation of recent years has been a good thing?—Certainly.

1829. Considering these two points that I have put to you about the places of encashment and the introduction of some method of elasticity, does it not appear to you that a further increase in the gold circulation would probably be more easily obtained by means of a bank than by means of a Government department?—It is rather a question of the method to be adopted than of the particular agency employed to do it.

1830. I was asking you your opinion; which do you consider to be the most efficient agent for the purpose in view?—Personally, I do not quite see,

assuming that the policy were decided upon, that the one agency would be more favourable than the other.

1831. Sir Robert Chalmers asked you a question about the profits that were made out of the paper currency and about handing over those profits to a bank or banks; the question of revising the agreements with the presidency banks is at present under consideration, is it not?—I believe it is.

1832. It is the case, is it not, that we leave with the Presidency banks at present balances very much larger than we are compelled under agreement to leave with them?—Yes.

1833. And that those balances are left free of interest?—Yes.

1834. So that the whole question is one of remuneration?—Yes.

1835. In connection with that this matter of the profits on the notes might be considered at the same time?—Yes.

1836. It is a part of the same general system or arrangement?—Yes.

The witness withdrew.

At the India Office, Whitehall, S.W.

SIXTH DAY.

Friday, June 13, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.

Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Mr. WALTER BADOCK, C.S.I., called and examined.

1837. (*Chairman*.) You are Accountant-General at the India Office, I understand?—That is so.

1838. You have handed in to the Commission two memoranda, one under the head of The Placing of Cash Balances on Loan or Deposit, and the other regarding the authority required for payments made at the India Office and the system of control exercised in respect of them. I propose to include those in our published evidence?—That will be my wish (*see Appendices XI. and XII.*).

1839. Turning to the memorandum on The Placing of Cash Balances, Appendix XI., on pages 315–6 you give the list of borrowers approved by the Secretary of State in Council on 31st March 1913; will you tell me how that list was made up?—The list of applications of approved borrowers is not made up by solicitation on the part of this office. We never ask anyone to join it, but applications can be made by any firm of suitable standing and resources. These applications are ordinarily made to the broker; the broker would make such inquiries as he thought suitable and add any opinion of his own, and would forward the application to me. I should then transmit it to the Chairman of the Finance Committee, who would also make any inquiries that he thought desirable and bring his own knowledge to bear on the matter. Then he would make a recommendation, which would be sent to me with any recommendation that he might think it suitable to attach. I should then prepare a minute which would go to the Under Secretary of State, and would be laid before the Finance Committee and before the Secretary of State.

1840. When you say Under Secretary, I presume you mean the Permanent Under Secretary?—Yes. It is the usual routine of the office that papers for Committees of Council are sent to the Permanent Under Secretary first. In recent cases an application has gone to the Under Secretary first, then to the Finance Committee, and then after approval by them has been approved by the Secretary of State in Council.

1841. On whom do you consider that the actual responsibility, the practical responsibility, for the selection or rejection of a name rests, under those circumstances?—I do not like to discriminate between the actual and practical, but, of course, very great responsibility rests upon the expert advisers to the Secretary of State. The decision is the decision of the Secretary of State in Council.

1842. Is the submission of a name to the Secretary of State in Council more than a form, if it has been approved by the other authorities you have mentioned?—I should not like to say that was the case, because it is open to any member of the Council who has any personal knowledge to make any comment he chooses to make, and to take any action he may think fit in support of his opinion.

1843. It would, I presume, naturally be unlikely that criticism would be heard at that stage?—I should say it was unlikely. I might add, perhaps, that there are two, and there have been for many years two, City members on the Council, so that it is not solely the decision of one City member in as far as it is a decision at all.

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Mr. WALTER BADOCK, C.S.I.

[Continued.]

1844. Is the Chairman of the Finance Committee always a City member?—As far as my recollection goes it has been so; I think I can certainly say for 30 years it has been so.

1845. He is appointed by the Secretary of State, is he?—The present chairman has been. I am not quite sure what the practice as regards that matter has been. I happen to know how Sir Felix Schuster was appointed, but that perhaps I think you had better ask of the Permanent Under Secretary.

1846. Do you happen to know for how long the appointment is made?—No, I do not.

1847. (Sir Robert Chalmers.) Are you speaking in answer to the Chairman about the appointment of this commercial member as Chairman of the Finance Committee?—I understood the Chairman to put that question to me.

1848. You would be able to say what is the term of appointment to be a member of the Council?—Yes; that under the present Act is seven years.

1849. (Chairman.) Are the members of the Finance Committee necessarily members of the Council?—Yes; it is a committee of the Council. I might explain perhaps that in recent years, since we have had large investments to make of the Gold Standard Reserve and the Paper Currency Reserve, and financial transactions on a larger scale than hitherto, it has been necessary sometimes to delegate the powers of the Secretary of State to an individual, because the stocks are offered and they have to be accepted or rejected at once, and transactions must be considered on their merits and decided immediately, being financial matters. For that purpose I know the Finance Committee and the Secretary of State delegate their powers to the Chairman or to the Chairman and one or two others; and the Chairman, I know, has recently been nominated for that purpose; but what took place before Sir Felix Schuster's time I cannot say.

1850. I presume that any transactions of that kind authorised by him would be reported at the earliest meeting?—Undoubtedly.

1851. When was the present practice instituted, under which applications come before the Finance Committee and the Secretary of State as well as before the Chairman?—As you know, this system was inherited from the East India Company. It was treated for many years in rather a confidential way, as, naturally, in regard to the information which a City member might have about firms and so on, it would not be convenient always to put all he knew on paper. He was especially qualified to deal with these matters, and until about 1912 the Chairman used provisionally to admit firms to the approved list, and loans were made to them and that was approved by the Finance Committee. Every detail of every loan has always been put before the Finance Committee weekly, and the appearance of a new name would at once be noticed and, if it was approved by the Committee, sanction to the admission of the name was implied of course. In 1906 the full borrowing list was submitted to the Finance Committee quarterly, and new admissions were recorded or any changes in it from the previous quarter, and it was formally approved. Not until December 1912 was the approval of the Secretary of State in Council given to the full borrowing list. The present procedure, as I have said, is to put every transaction before the Finance Committee.

1852. Have you any special reasons for the change?—Yes.

1853. Was it due to the magnitude of the then operations?—It was done really because it was desired to indicate that the decisions taken and the approval given were not those of a committee or an individual but those of the Secretary of State in Council; it was desired to make that more clear.

1854. I understand from paragraph 3 of Appendix XI. that loans are only made in sums of 50,000*l.* or in multiples of 50,000*l.*?—Yes. That was inherited from the East India Company. I have looked back into their affairs, and I find that they practically never lent less than 50,000*l.* and multiples of 50,000*l.*; there were one or two cases where they lent 25,000*l.*, but I cannot trace

any loan of a smaller amount. We find it very desirable to maintain that limit, because, in the first place, it ensures that firms who can produce the requisite amount of security are firms of a certain standing who would not be likely to be in difficulties in any ordinary movement of the money market. Of course in our loans the very first consideration, more important than any question of interest, is the question of the availability of the principal and the security. In the second place, the 50,000*l.* minimum is held because it keeps away the applications of small firms who might be willing to pay a high rate of interest and to whom it would not be quite safe to lend.

1855. I think you do suggest in your memorandum that occasionally a little money remains for a short time unlent?—Yes.

1856. Of course it does not amount to 50,000*l.*?—That is so. We consider the points that I put before you, namely, the security and the availability of the money, to be more important than investing the balance right up to the hilt. If we took small sums to one firm, and lent, say 25,000*l.*, so as to get nearer to our minimum balance, we could not very well use the argument that we only lend in blocks of 50,000*l.* when we receive applications from firms that it would be undesirable, perhaps, to put on the list.

1857. The only question that occurs to me is whether, when you have an approved borrower of 50,000*l.*, you might in such a case place an additional 25,000*l.* with him instead of saying that you would place another 50,000*l.*?—It might be so, but then we could not say, as we do say now, that we only lend in blocks of 50,000*l.* and multiples of 50,000*l.*

1858. You explain in paragraph 4 of Appendix XI. how you arrive at the period for which you can afford to lend money; is the period of six weeks the absolute maximum period for any loan?—There is no maximum laid down by the Secretary of State in Council. It has simply been a practice which has been adhered to throughout, except in the special time when we had very large balances, when the excess over anything that could possibly be required in the immediate future was put on deposit at the banks; otherwise the six weeks' maximum has been maintained throughout. It has this advantage: first, that of course we can, in emergency, call the whole balance in very rapidly; and secondly, if we hear rumours about any firm we are able to call the money in much more rapidly than we otherwise could, and possibly save ourselves from loss.

1859. It would naturally happen, I suppose, that in fact sums remain for a very much longer period with a single borrower, being renewed and renewed?—Undoubtedly; but only when he will pay the highest rate of the day. We unhesitatingly recall if the holder of a loan will not pay the rate which others will pay.

1860. You give us a list in paragraph 5 of Appendix XI. of the present securities which the broker is authorised to accept for those loans, and I see in the correspondence on page 313 of the Appendix that that list has recently been extended?—That is so.

1861. Is that list based on any general principle?—Yes, practically it rests on the provisions of the Government of India Act, 1858. That Act laid down the full financial procedure of the Secretary of State. I have a copy here, and perhaps you might like to look at it while I am explaining its effect. If you will look at section 45 you will see that the Act raises in the books of the Governor and Company of the Bank of England an account called the Stock Account of the Secretary of State in Council of India. The history of that is that at the time this Act was passed these loaning operations were going on as now, and the East India Company was the holder of very similar securities to what we are holding now, namely, Consols and Government Annuities. It was directed by this Act that all such securities should be transferred to the Stock Account at the Bank of England, and all such securities were so transferred. The Act provides, in section 48, that bearer securities shall be held at the Bank of England; and another section

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provides that all cash payments and receipts shall be at the Bank of England. These sections 43 to 48 practically determine the financial procedure of the Secretary of State.

1862. But they do not determine the class of stocks, do they?—Only in this way: The Bank of England cannot transfer any stocks into the stock account of the Secretary of State unless those stocks are transferable at the bank. That practically excludes those which are inscribed at other banks. That has been throughout the restriction which has been placed upon the loans of the Secretary of State, that we take the securities which are transferable, or can be transferred, into the stock account of the Secretary of State in Council of India at the Bank of England. That limits us a great deal with regard to registered securities. The terms of section 48, which deals with bearer securities, are much wider and enable us to include colonial bonds; it would also enable us to include other bearer securities if it was considered desirable. I might point out, too, that part of our system, as I have explained in paragraph 10 of Appendix XI. (page 311), is that, as a protection, I instruct the cashier of the Bank of England not to pay the broker until either the bearer securities have been deposited or the securities have been transferred to the stock account of the Secretary of State at the Bank of England. The cashiers, who act under a power of attorney from the Secretary of State, can only know this if it takes place at the bank, or they can only know it immediately, they can only have direct knowledge of it then. As a matter of fact, I know the cashier, before he pays it, sends for the transfer book from the bank, and sees for himself that another department has made the transfer.

1863. I am not competent to interpret this statute, but looking at the sections to which you refer me, I see that section 45 has a marginal note "Stock account to be opened at the bank," and section 46 has this marginal note, which I think gives a clearer summary of its provisions, "Stocks standing in the name of the company transferred"?—That has since been repealed, because it was done.

1864. I do not quite see that that section contains any restriction of the kind that you have mentioned?—There is no restriction, but, on the other hand, there is no authority. All our procedure is laid down by the Act as to where we shall keep all our accounts, and it has been considered that that is probably the intention of Parliament. This Act was passed long ago, before the present market conditions existed, but it has always been held that we should adhere to that procedure, and we have adhered to it from the date of the Act.

1865. You act, as you think, in the spirit of this Act?—In the spirit of it, yes.

1866. Though not absolutely bound by its terms?—That is so. There is no prohibition and there are no statutory powers in this respect, but there is for everything else that we do, and therefore it all hangs together.

1867. Looking at the list of authorised securities given in paragraph 5 of Appendix XI., at first sight it is not a very wide one, and the selection seems to me a little arbitrary; what do you say to that?—Of course it is arbitrary, because we consider it has always been governed by the conditions that we have been speaking about. The list has been added to from time to time, as securities of a suitable character, that come within the terms of the Act, have been created.

1868. What would you say if it were proposed to you to accept the English Trustee Stocks List?—First of all, as far as I can find out, we have never had any application to take any of these securities. The broker tells me that they are not the class of securities that are held by borrowers at all, and we have never, except just for one year or two, when we had those very exceptionally large balances, had any difficulty in lending on the very first-class securities that we have on our list. We have not until this year considered that there is any necessity to extend that list.

1869. So you would say that the list has been sufficient for your purposes, and that it has not resulted either in any difficulty in finding lenders or in any undue reduction of the rate of interest?—Yes.

1870. I see that the first securities which you mention in paragraph 5 of Appendix XI. (page 310), namely, India Debentures, India Bonds, and Guaranteed Debentures of the several Railway Companies, are taken at their par value, while Treasury Bills, Exchequer Bills, Exchequer Bonds, India Sterling Bills, Metropolitan Water Board Bills, and London County Bills are accepted at their market value; what is the justification for that distinction?—That distinction was deliberately adopted because we found that it facilitated the placing of our own bonds, debentures, and guaranteed debentures. Many of the firms hold these securities very largely, because they know that they can readily bring them to us and borrow on them at their par value. There was a time when we borrowed very largely indeed through the Guaranteed Debentures of Indian Railway Companies.

1871. As a matter of security you would not say that they are better securities than Treasury bills, would you?—For our purpose they really are, because if they are left on our hands we can hold them and draw the interest, and when they mature we pay ourselves. If it is a guaranteed debenture of an Indian railway company, we call upon the company to raise debentures to pay us off; if they are our own debentures we discharge our own debts when they mature. So there can be no indirect loss. There would be the inconvenience of holding for a time, but there would be no loss of principal.

1872. *Mutatis mutandis*, does not the same apply to Exchequer Bills and Exchequer Bonds?—No.

1873. You cannot pay yourselves?—No, we cannot pay ourselves; that is the point.

1874. (Sir Robert Chalmers.) It is a bookkeeping point really, is it not?—It is, but if we cannot realise the money readily we can hold them for a time.

1875. (Lord Faber.) You would not say that a guaranteed bond of an Indian railway is any better security than a Treasury bill, would you?—No.

1876. Sir Robert Chalmers says it is a mere book-keeping entry, therefore?—Yes, it is.

1877. I should say the security was not as good?—If you had to go into the market to sell at once, of course the Treasury bill would fetch more than the Indian railway debenture; there is no doubt about that.

1878. (Chairman.) Perhaps the real reason is the one given by you first of all—that it encourages the market to take these securities which you are desirous of placing?—No doubt that is the main reason. It is not merely placing, but renewing, because we have these railway debentures falling due every month. We find we can get them renewed readily by these people because they can borrow on them from us, and from others.

1879. I understand from paragraph 6 of Appendix XI. (page 310) that the responsibility for getting the best rate of interest rests with the broker?—Yes.

1880. It rests entirely with him at present, does it?—It rests entirely with him for the time. Of course, any rate he gets is criticised and looked at every week, and any opinion that the committee might have to express on the matter would be communicated to him; but the responsibility certainly rests with him.

1881. By whom is the broker appointed?—That is a thing which only happens very occasionally, and I should not like to say that there is any established procedure in the matter; but I remember the appointment of the last broker very well. The appointment was made by a letter from Lord Kilbracken to the broker, after a full consideration of other applications. Lord Kilbracken wrote in the name of the Secretary of State in Council conveying the approval of the Secretary of State in Council.

1882. For how long is the appointment?—The appointment was made for two years originally, and during that period the broker was directed to arrange for a partnership with a firm of stockbrokers to be approved by the Secretary of State. As a matter of

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fact, he entered into partnership within 12 months with Messrs. Nivison & Co., and a further letter was then written to him confirming the appointment. The appointment is during pleasure, and can be terminated either by notice from him or by notice from the Secretary of State.

1883. I understand that the broker is paid for this work by percentage on the amount of interest earned during each financial year?—It is a percentage on the interest on each transaction; that comes to the same thing.

1884. What is the present percentage?—The present percentage is $2\frac{1}{2}$ per cent. until 5,000*l.* has been reached, and thereafter $1\frac{1}{4}$ per cent.

1885. When was that fixed?—That was fixed in July 1911.

1886. The $2\frac{1}{2}$ per cent. on the interest?—Yes.

1887. In Statement No. 2 of Appendix XI. (page 318) you give us a table which shows the total amount of the broker's commission in each of the last 20 years; I observe that the figures in some years have been extremely high; for instance, they have been three times over 10,000*l.* and once very nearly 15,000*l.*—to be exact, 14,723*l.*?—Yes. I would like to explain that up to 1888 we used to pay a percentage on the amount lent, but then it was decided that it would be much better to pay a percentage on the amount of interest earned. Mr. Bertram Currie, who was then Chairman, was asked what the proper percentage was, and he wrote: "The usual charge in such cases is 10 per cent. of the interest, but the amount lent on behalf of the Secretary of State is so considerable that a lower scale will probably suffice." A scale of 5 per cent. was accordingly fixed, and this was the scale until the death of the late broker in 1903. The old broker's fees for the last three years was 7,000*l.*, 7,600*l.*, and 8,900*l.* These figures give the measure of the value of the appointment at the time the present broker was appointed. If you look at Mr. Scott's remuneration you will see that for the first five years of his appointment, that is from 1905-6 to 1909-10, the average works out to the present broker at 8,700*l.* a year. That is practically the same figure that his predecessor received during the last three years of his appointment. When it rose in 1910-1 to 16,000*l.*, and it seemed likely that large balances would still continue for some time, the matter was gone into, and Lord Inchcape asked me to interview the broker with him, and a reduced rate was recommended to the Secretary of State in Council. Lord Inchcape gave me permission, if you will allow me, to read a brief note that he wrote on the matter. He is a great authority on such questions, and I should think that his opinion would carry more weight perhaps with the Commission than anything I could say. It is not long, and if I might read it, it will put the whole case to you very clearly. This note, I might mention, was intended to be used by Lord Inchcape (then Sir James Mackay) in Council, but it was not used, and he gave it to me to be used at any time it was desired: "The Council may be inclined to regard it as somewhat hard to propose to reduce Mr. Scott's earnings by as much as one-half, but arrangements of this kind must necessarily in the nature of things be reconsidered from time to time, and the commission earned by Mr. Scott being now so much in excess of what the business was worth when he got the appointment, it is, I submit, not unreasonable to propose an arrangement which will effect a considerable saving to the revenues of India."

1888. What is the date of this letter?—This is dated the 20th June 1911, and the renewed arrangement took effect on the 1st July. It goes on: "So far as can be estimated, the earnings of Mr. Scott under the suggested scheme will give him an income during next year of something like 8,000*l.*, the amount which he earned annually for the first three years of his appointment. It is true that his work will be practically double what it was, and that from this amount has to be deducted the rent of his premises and the cost of his staff, but putting these at 2,000*l.* a year he will net annually 6,000*l.* On the other hand it may be said that this is a large income, but incomes in

"the City are larger than those at this end of the town, and from the City point of view it would not be regarded as excessive, considering the great responsibilities attaching to the work and the enormous value of the securities constantly passing through Mr. Scott's hands. Having been in daily and, I may say, hourly contact with Mr. Scott in arranging the placing of our balances and the raising of our loans for many years, I can speak with some knowledge of the assiduity which he displays in his work. He has to be at the call of the Chairman of the Finance Committee and the Accountant-General every business day and all day, and he never absents himself without leave previously obtained. It might further be said that a salaried man would do the work more cheaply, but I am doubtful if he would do it as well as a man paid by results. On our loans of 20 millions, if we lost even an eighth per cent. in interest, that would cost us 25,000*l.* a year, and there is no doubt that we benefit immensely by having a man to do our business who is a partner in a high-class financial house such as Nivison's and in constant touch with the market. I don't know if Mr. Scott will accept the reduced terms proposed, but if we can get him to do so and leave him at the same time valuing the appointment, as I hope we may, if the proposal in the departmental note is adopted by Council, I think the arrangement will be a distinctly favourable one for the revenues of India, and at the same time not ungenerous to a man who has served us well." That letter gives the whole argument of the minute.

1889. (Lord Faber.) It is very well put?—Yes, it is.

1890. (Chairman.) I agree with Lord Faber that it is very well put, but I confess it leaves me with the impression that the remuneration is very high; in other words, that it is such as would more than attract the men of very high standing and position that you must necessarily obtain for the post, and that it is more than sufficient to reward them for the work which they have to do. I gather from a reference in the minute of Lord Inchcape which you read, that he, at any rate, had considered the possibility of arranging for a fixed payment?—Yes, it had often been thought of.

1891. I made some inquiries as to the arrangements made by the Treasury with the Government broker, and I find that he receives a fixed payment?—That is not for loaning, that is for buying and selling stocks. We have a similar arrangement with Mr. Scott, but it is for quite a different thing. I might explain that when I prepared the minute for the Committee, dealing with Mr. Scott's remuneration which Lord Inchcape summed up here, the transactions to which you were referring were placed before them, and we were well aware what the Supreme Court was doing and what the Comptroller-General of the National Debt was doing. Mr. Scott now has a maximum of 1,500*l.* a year for purchases and sales of stocks. We have a scale which operates according to the transactions, which is on the paper which you have before you; you will find it at the foot. The payments under that scale are not to exceed 1,500*l.* a year. The cases that you put to me are not parallel, as the class of business is not the same.

1892. But would not a similar arrangement be applicable to it?—It is possible, no doubt, to get a broker at a fixed salary, but to get a first-class man in that position, with the very great responsibility that our broker has, you would have to pay a very high salary, considering the vast volume of business that he does and the responsibility. He must have offices close to the Bank of England, because we have hundreds of thousands of pounds of securities every day passing to and from his office to the Bank, and the transmission of these things in the City from a distance is risky, and, of course, it is an impediment to business too. He has expensive offices, and he has a staff, of course, constantly employed.

1893. I think Lord Inchcape calculated that after allowing 2,000*l.* a year for the offices and staff there would remain an average of 6,000*l.* a year?—That

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would depend entirely on our balances. It will not be anything like that if what we budget for is realised. If we start the coming financial year with a balance of about 4 millions, as we budget to do, the broker will not have anything like the remuneration that we are paying him now; in fact, it would not in many cases very much exceed his office expenses. If you look at the early years you will find there were many years when it did not, and the tendency is, and the wish is, to revert to the smaller balances if it is possible. Up to 1900 the maximum figure was 3,000*l.* altogether.

1894. That, of course, is one of the things which impresses one about the arrangement. If you take the 10 earlier years, the average is very much smaller than it is in the last 10 years, so no doubt the business has grown?—It has, immensely.

1895. Apparently the India Council itself came to the conclusion that the commission ought not to grow simply in proportion to the business?—Yes. Of course, we have to deal with an officer who would only accept an appointment of a certain value, and who would in every way satisfy the Government. It is a valuable post, undoubtedly.

1896. I understand you to say that in your opinion, having regard to the responsibility and the amount of his work, the average payments are not now unduly high?—I think they are not unduly high, particularly if you compare them with the scale which I suppose other brokers know of, which is paid in the City for similar business.

1897. Do you attach much importance to the reason for continuing to pay by commission given by Lord Inchcape, that you could hardly expect to get the best service of a man unless his remuneration was dependent—I think that is what it comes to—on the success of his exertions?—We deliberately abandoned the old plan of paying a percentage on amounts.

1898. In order to stimulate him to greater activity?—I think, generally speaking, it is a consideration which tends to ensure the best terms for India.

1899. It is not one which is ever applied to civil servants?—No, but then we are not dealing with civil servants, and one must look at it from the City point of view. I may say that I know the views of Mr. Le Marchant, the preceding Chairman, were very similar, namely, that in the City we must pay for a first-class man prices which, to civil servants, look very large.

1900. The figures in Statement No. 2, on page 318 of Appendix XI., I think from what you have said, do not show the total remuneration of the broker?—No. His total remuneration is shown in a statement which I think has been sent to you.

1901. Is that the paper headed "Supplementary Statement III." on page 330 of Appendix XI.?—Yes, that shows you his total remuneration. Might I supplement my last answer with regard to the scale paid to the broker? Of course, the whole of it is not personal to him; that is understood. We do not know the arrangement he has made with the firm to which he belongs; that is not his personal share.

1902. It is remuneration to the firm?—It goes to the firm, and the broker's relation to the firm in that matter we do not know.

1903. In order to make your procedure quite clear, I want to ask about the auditor. Is it any part of the auditor's business to check the rate of interest received?—Not the rate of interest received, because he, like myself, is a whole-time officer in the West End, and he would not be an expert. But the auditor would watch the balances and see that he invested them.

1904. The auditor would do that, would he?—Yes.

1905. In certain years you placed portions of your cash balances on deposit with some of the banks?—Yes.

1906. Who made the decision as to the banks to be chosen? Was the selection made in the same way as for the borrowers' list?—Practically. The Chairman of the Finance Committee, in consultation with other members of the Finance Committee, in the first place selected the banks, and they were shortly afterwards approved by the Secretary of State in Council.

1907. In that case, was it made known to the City that there was this money to be placed, and did you await applications from the banks?—No. No announcement was made.

1908. The Finance Committee, with the approval of the Secretary of State, selected certain banks and then negotiated the terms with them?—Yes.

1909. That, I think, was only intended as a temporary expedient?—A purely temporary expedient.

1910. And at the present time no money is on deposit with the banks?—That is so. We should never need to do anything of that kind unless our balance exceeded 11 millions.

1911. And that is a point beyond which you do not expect your balances to rise?—It is the point at which we stand at the present moment, but the amount will be largely reduced in about a fortnight's time when the dividends are paid on the India stocks.

1912. I see in paragraph 15 of Appendix XI. you mention two cases where apparently the approved borrowers were unable to pay on the due date; these were the only two cases in which you have had any difficulty, I believe?—They are the only two cases in which we have had any difficulty at all. Every loan has been paid without any difficulty directly the money has been asked for. But there were two cases in 1906 and 1907 in which firms were unable to meet their engagements.

1913. Did their failure to meet their engagements suggest any further precautions?—No. I raised the question again with the Finance Committee as to advancing at par value Indian railway debentures, because both those loans were in Indian railway debentures, and it was decided not to make any change. In one case I may mention that we made a considerable profit. We took the securities over and sold them and made a profit and handed over the balance to the estate. In the other case there was a small loss on the principal, but we held the bonds for a few months, sold them, and they carried a rate of interest while we held them which was higher than we were receiving in the market, and so we recouped our loss on the principal by the extra interest.

1914. You have arrangements with the Bank of England, I think, unwritten but old-standing arrangements, that your balances on each day should not fall below 500,000*l.*?—That is so.

1915. That is indirect remuneration to the Bank, I think, and you so describe it?—Yes.

1916. But you pay the Bank a direct remuneration for some of its services also?—Yes.

1917. Can you tell me what that remuneration amounts to?—I think there has been put in to-day a statement which gives you full information (*see* Supplementary Statement II. to Appendix XI., page 329).

1918. I do not think I need ask you any question on your other memorandum (Appendix XII.), on the authority required for payments made at the India Office, except this, that I see from the statement at the end of paragraph 3 that the arrangements with the Bank of England for the issue of loans were made in December 1904; but you do not say for what period they were made?—They were not made for any fixed period. The question can be raised by the Bank or ourselves at any time, but they agree with the rate that is being paid by the Treasury. If the Treasury alter their rate for similar transactions, I suppose we should do it without question.

1919. (*Lord Faber.*) I gather from you that you think the securities on which you lend are admirable and of a high class?—Yes.

1920. Do you not think it would be better, however, to add to that list of securities some first-class stocks which are registered not at the Bank of England, but at the big joint stock banks like the London and Westminster and that sort of bank; you have not got those in your list?—Yes, I do.

1921. Do you think your list is enough? In my trade as a banker we all lend on these things, and we make no difference at all. We find there is no difficulty in getting the security registered. It appears to me, looking very carefully through Appendix XI., that on one or two occasions you have not been able to find

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quite sufficient securities of this class alone?—It very rarely happens, but because we could not find securities on the list as it then stood we admitted bearer colonial securities, and we have had no difficulties since.

1922. You rather astonished me in one remark that you made. I agree with you in thinking that you are wise to lend only in blocks of 50,000*l.*; it saves much book-keeping and it is easy; but then you go on and say that a man is safer if you can lend him 50,000*l.* than if you can only lend him 25,000*l.*, because he is bigger; are you still of that opinion?—I did not mean to convey that impression. I only meant that those who would deal in such large sums could produce such large amounts of securities. We satisfy ourselves before we admit them to the list that they have large capital resources. We have had applications, as a matter of fact, from very small people who offer very high rates of interest.

1923. Am I right in thinking that the Government lend at par on Indian railway debentures, although those debentures might be below par and might have some years to run?—Yes.

1924. Is that completely wise, do you think? You are letting a man borrow on security which is not full security. Instead of lending on a margin of 5 per cent., when he borrows you are letting him have more than the security; you will get paid eventually, but meanwhile he ought to be paying market terms?—That policy has been considered again and again, and deliberately adopted because, as I have said, there is a very large amount of Indian railway debt of that kind, temporary debt, which has to be renewed from time to time, and fresh issues are occasionally made. We know that people take these things and use them to borrow from us and other people.

1925. May I say this, that the borrower, if he knows his business, and if he has any Indian railway debentures, will always borrow on them before he borrows on anything else, because he could borrow more on them than they are worth?—I should have thought so, but it is not so as a matter of fact. We found when we admitted the colonial securities that some of them came and took out our debentures and put colonial securities in instead.

1926. Now, coming to the very difficult question of the payment to the Government broker, I suppose you would be of the opinion that a broker, being only human, works rather better for a percentage than he would for a fixed salary?—I should think so. I do not say how far that would actuate him, but we all of us, I think, are stimulated by feeling that we get something out of the work we do and in proportion to the work we do.

1927. Taking your figures as correct, the broker now gets 8,000*l.* a year, and I think he has to pay 2,000*l.* for clerks and for offices, unless he is in his firm's offices? Is it his firm's offices?—Yes, but he has separate rooms for our business.

1928. Does he pay 2,000*l.* for those rooms?—I do not know. He employs two highly paid clerks at least to do our business, men drawing considerable salaries; one, I know, has been with him or with his firm for nearly 40 years. As a matter of fact, the broker will be before you presently, and I dare say he will tell you what his office expenses are. It had better come from him than from me.

1929. It is difficult to decide a question of salary. I can only say that on the whole it appears to me to be large when I bear in mind that Cabinet Ministers, the largest railway general managers, and the largest bank managers, whose whole time is given to the work, and every moment of their time, do not get as much—many of them at any rate. I can speak from my own personal knowledge to that. This is a difficult thing, and I do not want to dogmatise on it; I do not say it is wrong?—I put the matter fully before the Council, and the matter was very carefully considered, especially by Lord Inchcape. I know it had previously been considered by previous chairmen of the Finance Committee, and they decided that the present scale was not an extravagant scale. You must remember that, while we have had big balances, we must look at the average.

1930. I lay great stress on what you said about the Indian Budget. As we know from studying your figures, India has much larger balances than usual owing to certain circumstances, such as its being unable to buy its railway material, and therefore the broker has had to do a great deal more in the last few years than he would have had on a general average?—Besides, we have had, as you know, large opium balances here which have been held over until temporary debt matured. All those things help the broker.

1931. I do not think you are quite aware that it is very easy indeed to check the rate that the broker gets from day to day; you can check it absolutely to a fraction by the quotations in the daily papers?—I may say that one of the best protections we have against the broker accepting a wrong rate of interest is the fact that the daily papers publish the business we do, the period for which we lend, and what we get every day. If we go wrong everybody knows it.

1932. I may say again, as a banker, that you do not get the top price for your money?—See the conditions under which we lend. We are lending public money and we are not a dividend-paying concern.

1933. You get excellent securities?—Yes, we do. A further point is that we lend for the date that we fix and that the borrower does not fix; we lend for the date on which we want the money, and we do not consider the borrower in that matter.

1934. (*Sir Robert Chalmers.*) Following your argument in favour of lending to outside brokers not less than 50,000*l.*, that same argument does not apply to multiples quite, does it?—No, not exactly. What we want to be able to say is that we only lend in blocks of 50,000*l.*

1935. So long as you say that is your minimum, your main principle, is that not enough for you?—It might be enough, but it has not been the practice. You must remember that I have to reserve some money, and that I could not even then lend right down to the 500,000*l.*, because I have liabilities coming in quite unexpectedly. Contractors expect to be paid immediately, and demands are made at very short notice, so I always keep a larger balance than 500,000*l.*

1936. It might be the case that one of the people to whom you wanted to lend might want to borrow 70,000*l.* and not 100,000*l.*?—We have never been asked to do that.

1937. Of course, because they know your practice?—They know our practice.

1938. As to the loans made to the banks in recent years, do you get any security from the banks?—None. I am told that the clearing banks—and they were all clearing banks—will not give securities under those circumstances.

1939. At the time, you were lending money to these outside borrowers, and they did give security of the special and valuable character that you have already mentioned?—That is so.

1940. You did not ask the joint stock banks to give security for the similar loans that you made to them?—No. I think the explanation given was this, that the joint stock banks object always to giving security, because it makes us preferential creditors; therefore they decline to do it, as they will not put us in a special position.

1941. I quite follow that; but take the case of one of the joint stock banks going to the Bank of England to borrow money; they would give security for their loan from the Bank of England, would they not?—That is a matter which does not come within my personal knowledge.

1942. Are you aware that in some cases some public bodies have required security?—I know one public body has required some security.

1943. I am anxious to elicit your opinion: Would the requirements of such special securities from these banks mean a reduction of the rate payable; do you think so or not?—I do not think it would, but I am not in a position to say.

1944. Is it not the case that these loans to the joint stock banks and so forth were wholly exceptional?—Yes.

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1945. And are not likely to recur?—Yes.

1946. Coming back to the particular case of the exceptional circumstances in which loans were made by the India Office to banks, to what extent were members of the Secretary of State's Council interested in any banks to which loans were made?—Do you mean that you want to know how many members of the Council were so interested?

1947. Yes, the number?—There were two that I know of and only two, that is to say, two actual members. There was also one ex-member.

1948. I meant the number of actual members at the time the loans were made?—Two at the time.

1949. Was there any question raised, so far as you know, as to the policy of making loans to banks with which members of the Secretary of State's Council were connected as directors?—I know the question was raised, and the possibility of parliamentary criticism on lending to banks represented on our Council was fully considered. I called attention to it in a Council Minute dated December 1911. The Secretary of State, however, approved the action and thought that under the circumstances it was the most suitable thing to do. Absolute security, as far as we could attain it without the deposit of securities of any other kind, was the thing we aimed at. Our own members of Council knew the banks with which they were connected, they knew exactly what they would do with the money, and that special steps would be taken to secure its availability on the day we might want it. We might have lent to other banks who might have been equally secure, but we should not have known, as we knew in the case of these banks, exactly what was done with the money.

1950. The possibility of hostile criticism was recognised in advance?—And it was fully considered.

1951. As to the composition of the Finance Committee, that, I think, is exclusively, is it not, like the composition of every other committee, at the discretion of the Secretary of State?—Yes.

1952. Is there anything that differentiates the Finance Committee from any other committee as regards the principles on which it is formed?—Yes. We have always had the City representation on the Finance Committee; in that sense it is special. It is usual, I think—though of course these matters are not really in my department, they belong to a higher authority than myself—just as there is a military member generally to represent military finance.

1953. That I quite understand, but I was not speaking as to the personnel composing the Committee. Committees are appointed by the Secretary of State for finance purposes, military purposes, and so forth, and there is nothing as regards the mode of composition or of appointment which differentiates the functions of the Secretary of State in connection with the Finance Committee from his functions in connection with any other committee, is there?—Nothing that I know of at all.

1954. And the Chairman of the Finance Committee, as of any other committee, is, as a rule, I understand, appointed in an informal way—designated, may I say—by the Secretary of State, and holds office at the pleasure of the Secretary of State?—Of that again I am not quite sure. These matters are decided in Council, so I probably am not a suitable witness to put the question to. I can only speak of what I know in the particular case of the Finance Committee.

1955. I understand that by law no business can be placed before any committee or before the Council except by the Secretary of State, or the Under-Secretary acting on his behalf; and no member of the Council can legally take part in the business of any committee unless requested to do so by or on behalf of the Secretary of State; is that correct?—That I understand to be the case. That is why the minutes of all the departments go to the Under-Secretary, who, in the name of the Secretary of State, writes, "Direct to be sent to" this committee or that committee or to more than one committee.

1956. (Mr. Gladstone.) I think the Chairman referred to the list of borrowers against security which you give in Appendix XI, pp. 315-6, as being a somewhat arbitrary list; is this not partly due

to the fact, perhaps, that it is not generally known, or was not generally known, that firms and other suitable people could get on the list by application?—We do not advertise it in any way. We never ask people to join.

1957. I, for instance, am in the City, and I did not know how the list was composed; now I do. I think if it were desired to widen the list—it probably will be known now—you will have further applications from people who will be suitable?—An announcement was made in Parliament that applications will be considered, as they always have been.

1958. With regard to making advances at par on India Debentures, India Bonds, and the Guaranteed Debentures of Indian Railways; I do not quite appreciate the difference between Debentures and Guaranteed Debentures?—Guaranteed Debentures are the debentures of a railway company. The India Debentures are debentures of the Government of India.

1959. Do you think it is quite sound to advance on their par value? Would it not be better to put these securities into the list for market value, even if the cover was reduced somewhat from 5 per cent.? I do not quite see why advances should be made on securities above their market value. If that practice were abused, bankers could buy these securities below par value and then obtain the full par value from you and have a permanent margin?—There is, as a rule, very little difference, because these bonds are renewed from time to time on terms that practically bring them to par every time they are renewed.

1960. It would only be a matter of $\frac{1}{2}$ per cent. then?—Say of 2s. 6d., or something of that kind. There has been very little in it.

1961. (Lord Fisher.) They have been a good deal under par, just lately, but that, I suppose, is exceptional?—Yes. That will be readjusted when the time for renewal comes.

1962. (Mr. Gladstone.) Then with regard to the list of borrowers; it being your practice to demand a margin of 5 per cent. on market values, you are practically secured except against fraud on these loans?—Yes.

1963. A 5 per cent. margin on securities of this character is a very large margin?—It is.

1964. With regard to the rate that you obtain, some reference has been made to the top price. You have referred to the rates of interest which are published in the newspapers, and have stated that that makes it possible for you to check the broker; are you satisfied that he does get you a very good rate?—That is not, of course, my check. Personally, I can have very little knowledge of the prices of the market at the time, except what I may read in the newspapers; but the City members of the Finance Committee are in close touch with the hourly movements of money; they check it, and we have, as I say, the additional security which publicity gives as to what we do.

1965. My own experience is that you do get a very close rate?—I think we do.

1966. I had an instance only two months ago, where I lent 150,000*l.* The National Discount Company took it, telling me that a similar amount had been called in by the Secretary of State that morning. I got from them something like the same rate, $4\frac{1}{2}$ or $4\frac{3}{4}$. That gave me the impression that the India Office did their business uncommonly well?—I think my observation would entirely confirm your view, that the broker does everything a man can do to get the best rate he can.

1967. No doubt you could look up this actual transaction if desired. We have not had before us a list of the joint stock banks with whom deposits were made?—The names have been published in answer to a question in Parliament. Of course there is no objection to giving them.

1968. (Chairman.) I think we ought to have them?—The names are the National Provincial Bank of England; the London County and Westminster; the Union of London and Smiths Bank; the London City and Midland Bank; Glyn, Mills, Currie & Co.; the London Joint Stock Bank; and Messrs. Barclay & Co. Other banks have applied, and they have been

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told that if the practice were resumed their names would be considered.

1969. (*Lord Faber.*) You have got quite first-rate banks on your list?—I think so.

1970. (*Chairman.*) Other banks you say have applied since—since when?—Since the parliamentary questions were asked.

1971. That is, since it became known that you had been lending in this way?—Yes.

1972. (*Mr. Gladstone.*) Did you consider the financial position and general standing of those banks was so high and undoubted that really it was almost superfluous to ask for security?—I could not judge of that, but our two City members, who were bankers, thought they would not give security.

1973. Do you not think they were probably influenced by the fact that if you did ask for security the rate of interest would undoubtedly be lower? Is it not the regular practice to make a difference in the rate in the case of high-class institutions whether security is given or not?—It is quite possible, but that is a practice that I cannot say that I am aware of myself from any personal knowledge.

1974. With reference to Mr. Scott, do I understand that he gives his whole time to the business of the India Office?—Practically; that is to say, we have the first call on him at any time. At any business hour of the day either a member of the Council or myself can obtain his services at once for anything that is wanted.

1975. In deciding that it was preferable to utilise the services of a broker of the highest possible standing in the City, I suppose the opinion was that he would have better opportunities of getting the best rates than a salaried man who might not have the same opportunities of gauging the market?—I think one reason was that we wanted the broker to be associated with a firm which contained partners with large financial knowledge as well, and in his absence one of them has to do his business. If you take a firm like Messrs. Nivison, I do not consider that they are overpaid by the office for the work that they do.

1976. In other words, you consider that the income of each individual partner in Nivison's is considerably more than 8,000*l.* a year, quite apart from India Office business?—I have no means of judging that, but I should think it is very possible.

1977. The business conducted by Mr. Scott, that is, the daily transactions against securities, and the moving of them from one firm to another, and from the Bank backwards and forwards, is a very laborious and responsible business, is it not?—Undoubtedly. It would be a very serious matter if anything went wrong with any of them.

1978. On the estimate of 2,000*l.* for expenses, which Lord Inchcape mentioned, does that not strike you as rather low? Knowing the rents, for instance, which have to be paid for offices near the Bank of England on the ordinary scale, I confess I should be astonished to hear that an office could be run near the Bank of England to transact this business for the India Office on 2,000*l.* a year?—I think I know the salaries that are paid, and that allows me to judge how much is left for rent. Considering the very important position of the premises and so on, I certainly think that 2,000*l.* a year is not an excessive estimate of the cost of the office. It is immediately opposite the Bank, on the other side of the road.

1979. I see in Appendix XII. you make a reference to the purchase of stores (pp. 331–2). Without going into details, I would ask whether in the interests of Indian finance it might not be desirable to purchase stores, railway material, and other things far more freely in India than is now the practice, even although the material may come from Europe? Payment, of course, would then be made in India, the quality of all goods would be checked there, presumably, and of course it would be popular in India, the idea of traders in India being that a great deal more business of that kind should be done there?—I know this matter has been very fully considered for many years, but it has not taken place in my department, and I do not think I could make any statement that would be of much

use to the Commission. It is a matter for the Director-General of Stores.

1980. (*Mr. Keynes.*) What are India Debentures, which are the first stock referred to by you?—We have no India Debentures outstanding at the present time, but we had some a few years ago. They were simply debentures running for seven years. It was found convenient to raise money in that way instead of raising it by India Stocks, or by shorter-term securities such as India Bills or India Bonds.

1981. May I understand that the securities placed in the first class in paragraph 5 of Appendix XI. (page 310) have two advantages, namely, that they are received at their par value, and that they are also free from the liability to the provision of cover?—Yes; those three classes of Indian securities stand in the position you state.

1982. They have got both advantages?—Yes; we advance at par and there is no cover.

1983. With regard to the remuneration of the broker, it is in proportion, as I understand, to the interest that he earns, and therefore it depends not only on the volume of business, but also on the rate which prevails for money in a given year?—Yes.

1984. I notice that for a large part of 1912–3 the rate of interest shown in Supplementary Statement I. to Appendix XI. (page 328) was much in excess of what it had been in some previous years, because the prevailing rate of money was higher in that year. The figures for 1912–3 are perhaps 50 per cent. higher than the figures for 1911. Therefore the broker would be getting a remuneration 50 per cent. higher through no virtue of his own, but because the rate of money all over the market was higher in that year than in the preceding year?—That is so.

1985. It would be a purely casual remuneration which had no reference to the volume of business or to the trouble or skill which was involved?—That is so, but you must set against that high rate the 1·79 rate which you get at the top of the table. It is an average rate.

1986. I was leading up rather to the point that, if you wish to pay the broker by commission in order to make sure that he will use all his skill, the results of his skill are shown rather in the excess that he gets over a certain amount than in the absolute amount; that is to say, if he is skilful he may get 4½ per cent. instead of 4¼?—Yes, if he is skilful and persistent.

1987. Do you measure his skill by the amount he gets in relation to the average Bank Rate in a given year, or something of that sort, rather than by the absolute total he gets?—We do not consider the Bank Rate has any reference at all to this. The Bank Rate is very often ineffective, and generally applies to rather a different class of transactions from those. It really, as far as we can see, has very little reference indeed to the particular rate that we get.

1988. (*Lord Faber.*) This is what bankers call day to day money, which is quite a different thing?—Yes, it is.

1989. (*Mr. Keynes.*) Would you agree that the amount extra which he can get by his skill is quite swallowed up by the fluctuations due to variations in the general rate for money?—Both of the reasons you have given operate, but it would be difficult to say precisely how far the broker's skill, or the movement of the market, affected a particular transaction. His skill consists in getting the highest rate under the existing market conditions. I am afraid I could not express an opinion as to how far a particular rate was dependent upon the broker's skill.

1990. Suppose that in a given year, or in a given month, he is earning for you 3½ per cent., and by his skill he gets an eighth per cent. more than if he had been less skilful, the proportion of his income which is affected by his additional skill is about one-thirtieth?—Yes, but that might make, over a large sum, a very considerable difference. As Lord Inchcape pointed out, at the time we had 20 millions out an eighth per cent. on our interest would have meant 25,000*l.*

1991. (*Lord Faber.*) I should say both his skill and the money market have to do with it?—They have to

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do with it, but I cannot say how much belongs to each.

1992. (*Mr. Keynes.*) If he is getting a net income of 6,000*l.* a year, one-thirtieth of that is 200*l.*, which is something trifling to him?—Yes.

1993. So the amount of difference to his income that his skill makes is very small?—No. Knowing the very great pains he takes every day to ascertain the rate, and to get the best rate, I should say that we owe a great deal to his skill and persistence.

1994. I am not disputing that the India Office does not gain large sums by his skill, nor am I denying the exercise of it; all I am saying is that his skill makes very little difference to his own income?—It is not very large, but of course he has a financial interest, and where people have a financial interest they will work. I do not think, generally speaking, it is wise to rely on a man doing his best simply because of principle; if you can give him an incentive in the way of inducement, even if it is small, it helps.

1995. I wish only to suggest that the amount of incentive which has been given him in this way is scarcely sufficient to justify a system which might be open to objection on other grounds?—I am inclined, looking at it generally, to think that the wisest plan (and it is the City plan, generally, I think) is to pay by what you might call piece-work, that is to say, to make the remuneration depend, where possible, upon results.

1996. I understand that, apart from deposits in banks, you never lend for more than six weeks, and generally for less?—There is nothing to prevent my lending for more; six weeks is not laid down as a maximum, but that has always been the practice, and it is well understood, but there is no minute on the subject. When we decided to lend for longer periods on deposit no minute was required, that is, no fresh minute from the Secretary of State, on that point. I think I explained to the Chairman that our reason for the six weeks is that it is very undesirable to let our balances go out of our control for a long period. We can never tell what may happen in another part of the world which may make it necessary to make them available, and we can never tell what may happen to any particular firm which may make it desirable to call the money in at no distant date.

1997. (*Chairman.*) Shall we put it in this way, that you are playing for safety?—The entire game is for safety, if I may put it in that way.

1998. (*Mr. Keynes.*) If the reason for lending for short periods is put on the ground of safety, are you not sufficiently secured, in the case where, for example, Consols is the security, if you take a margin of five per cent.?—No, because in practice we find there are difficulties in the way of realising our security immediately. The two cases where we had to realise them were where we found ourselves grouped with other creditors, and the Secretary of State had to consider what other creditors were doing, and to some extent act with them. As a practical matter what happened was this: Some of the creditors refused to take over their securities and give a release, and some agreed to do so; the Secretary of State declined to do so, because it was thought that the defaulter had other means and there might be something more than the security available. Eventually all the creditors accepted their securities, and then the Secretary of State accepted his, although at the moment they could not be realised to produce exactly the sum. This took some little time. As a practical matter the money was not available immediately. So it would generally happen that, unless we were forced to do it, we should not take an isolated line, but we should act in concert with other creditors of the firm. That is what happened in those two cases.

1999. In both of those cases the securities were of the exceptional class in which no margin was taken?—Yes, those cases were so. The probability is that there would be some formalities, as there were the last time. We should have to arrange with the representatives of the broker that we should take them over, and there would be an exchange of documents which would give effect to these arrangements.

2000. If you took a margin and it more than covered your loan no difficulty could possibly arise, as you would immediately accept your security if it more than covered your loan?—We should do so if we were obliged to do so, no doubt, but, in the only two cases I have come in contact with, the Secretary of State thought it was better not to take an isolated course, but to act in agreement with other creditors.

2001. (*Lord Faber.*) When you lend on security you lend on collateral security, and if the man fails, you first of all get a dividend and then you come back on the security?—Will you please look at the form of agreement?

2002. You ought to do that?—The first security we have consists of the securities deposited, but the estate makes good any deficit, if there is one. It is expressly laid down in the agreement.

2003. I am surprised at it. My point is that generally when you make a man a loan you take the security as collateral, and then if there is a dividend you get that?—If you will kindly look at the form of agreement in my Memorandum on the Placing of Cash Balances, pp. 314–5, you will see exactly how we stand. That says, “We hereby authorise you to sell ‘immediately all the securities accepted in respect of this advance, and to repay the advance with all interest then due, so far as the proceeds of sale will allow; and we hereby undertake to repay any deficiency which the proceeds of sale may fail to discharge.’” So our first security arises out of the securities deposited; and in the second place we have a claim against the estate of the defaulter.

2004. You can easily have it worded in another way by which you come first of all on the estate and then on the security; that is done by bankers every day of the week?—This was drawn up by our legal adviser. I do not know whether he is aware of that practice, but it is a useful thing to know.

2005. (*Mr. Keynes.*) The point I am trying to bring out is merely this, that with the exception of the first class, India debentures, India bonds, and guaranteed debentures, you have taken absolute security?—Yes.

2006. But in these three cases you have not taken absolute security, and you have twice been in difficulties?—Yes, that is so. They were not serious difficulties in any way, not even inconvenient.

2007. Some slight difficulty—may I put it like that?—No, I do not think practically there was any inconvenience; there would have been if we had wanted the money very badly, but it did not really matter at the time. I should not like you to think that the finances of the Secretary of State were in any real difficulty at all.

2008. I am pursuing my original point, that in those cases where you are perfectly secured there is no reason for taking into account the consideration of safety when you are thinking of the period for which you should lend; it is only if you are not perfectly secured that that is a relevant consideration?—There is a larger consideration, that we may want to realise our whole balance, owing to foreign complications and those sort of things.

2009. I was not taking that point now?—There remains that point, even if you say we are fully covered by the securities deposited with cover. I was trying to make it clear that it is a little difficult for the Secretary of State to realise immediately, even where he is supplied with cover. He would probably be asked to fall into line with other creditors, and so on.

2010. I do not understand why that should be so where there is a 5 per cent. margin?—It possibly may not be legally necessary to do so, but I may say that people would look a great deal to see what the Secretary of State was doing, and if he took any course that seemed harsh to a creditor or anything of that kind, he might be supposed to be giving a lead. As a matter of fact, the Secretary of State would sooner stand and see what other creditors were doing, unless it was absolutely necessary to realise for the security of the India Office.

2011. I do not feel that I have quite got an answer to the point that I was trying to raise, but

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I will not pursue that question further. There was a possible implication in one of your answers to Sir Robert Chalmers which I should like to clear up. Are we to understand that the banks represented on the Secretary of State's Council had a certain advantage when deposits were being made, in that you were in a better position to know exactly how they would treat your deposit?—No, those banks were not in a better position, and I will not say that it placed them in a better position because those who were responsible for our money were represented on the banks and knew exactly what the banks were going to do with it. The chairman, who had to decide how these large sums of money could be placed with the greatest safety, naturally would feel with regard to the money that was to some extent under his direction that he would know what was going to be done with it, and that it was safe in that sense.

2012. Did the fact that you had authorities of these banks on your Council make it more probable that the Secretary of State would choose their banks than that he would choose different banks?—There was some advantage in doing so, but that is all I should wish to say. It was known that special provision would be made, and it was known what class of business the banks were doing. With regard to some other banks, I do not suppose anyone at the Council would know with the same degree of certainty exactly what was done with the money.

2013. (*Sir Shapurji Broacha.*) There was at one time a great outcry, often repeated, that you lent at $2\frac{1}{2}$ per cent. and borrowed at $3\frac{1}{2}$ per cent. To a banker that seems all right, because it is better to keep money employed than for the money to lie idle. Still, as you had those large sums to lend, could you not have foreseen that a certain amount would fall due, say, on the 5th June, and when lending that money in April, say, only lend it up to the 5th June? That would have avoided the outcry of the man in the street, who does not understand these things?—What do you mean by money falling due?

2014. Say that you lend to-day a million of money for two months, and yet on the 30th June some money is falling due for payment; could you not manage it so that you would only lend so much for two months or six weeks, so as to be ready with the cash when this payment was due?—Perhaps the simplest way would be to explain exactly on what principles I do place this money. I take six weeks as the maximum for lending, and I should look to that six weeks and make the best estimate I could of all the special payments that have to be provided for, including payments of interest, the maturities of debentures and so on. I should also calculate the amount that would have to be paid in pay, pension, retired pay, and all that kind of thing. I should make ample provision, in fact, for all special liabilities first of all; then I should take the rest and distribute it pretty evenly over the days; that is to say, every business day I should put a certain amount upon that day after I had provided for special liabilities. Of course there is more on many days than I want, and then if it is not wanted it is renewed, but I do provide for all special liabilities that I can foresee, and distribute the rest evenly over the period.

2015. I do not criticise your lending at all, but I say that by timing the payments you might prevent the man in the street crying out about it?—I do not quite appreciate your point.

2016. You are lending to-day a million for six weeks, and the Secretary of State has to pay a quarter of a million at the end of the month; could you not lend three-quarters of a million for the six weeks and a quarter of a million until the end of the month when the Secretary of State has to pay that money, so that the difference between the rate of lending and borrowing would not be noticed; it would only require a little care?—I think the criticism about borrowing arose from the fact that we renewed India sterling bills for a certain period—that is what called attention to it—and we were not earning as much interest

as we were paying at the time. That was the cause of the criticism.

2017. You might have lent up to date, and then again borrow at the rate you lend, on the same day?—I am afraid I do not quite understand your point, or its relation to the criticism to which the office has been subjected.

2018. If you had a million to lend for six weeks, and of that million you required to pay a quarter of a million on the 30th June, could you not have lent three-quarters of a million for six weeks and a quarter of a million only up to the 30th June, the date the Secretary of State has to pay that money?—Do you mean that after providing for absolute requirements, could I not lend the surplus money up to the extreme limit?

2019. (*Mr. Keynes.*) May I put it like this—that up to the six weeks you do consider very carefully the commitments that you have in view?—Yes.

2020. But that beyond six weeks you do not?—I should not like to say I do not, but not in loaning.

2021. Not in loaning is what I mean?—Then I do not.

2022. So you are not open to Sir Shapurji's criticism up to the six weeks?—No.

2023. But if he applies it to purposes beyond the six weeks, then your defence, if you have one, is a different one?—Does Sir Shapurji mean that after providing for all the liabilities that I can foresee I should let the surplus go for a longer period?

2024. (*Sir Shapurji Broacha.*) That is what I say?—Of course it might be done, but it has not been done, and the reasons have been, as I say, that we have been a little bit careful. We are the largest lenders of public money, and I think it is a good sound principle not to part with your money for a longer period than is necessary, because emergencies do arise and we can get our full balances within six weeks at the outside. As I said, there is a further advantage, that it enables us in a particular case to call in money at no distant date, whereas if we lent it for some months we might see difficulties coming, and yet be powerless to take measures against them.

2025. It has been stated in evidence that the Bank of England requires half a million to be always kept in its hands, and that you should give notice the day before when you require money, so that you cannot lend the same day that you receive the money?—Generally I can; but in Appendix XI., page 319, I state that where we have heavy payments to make the Bank expect us to make provision the previous night, and that is in accordance with what they do with the Treasury.

2026. And that makes you lose one day's interest?—Yes.

2027. It would not matter to the Bank of England to allow you to overdraw for a few hours, as before the Bank closes it would be paid up; it would not be a loss to the Bank of England, but it is a loss of one day's interest to you?—We are quite alive to that, and we have tried very hard to get it remedied. The reply has been that if the concession is given to us it will have to be given to His Majesty's Treasury, and the Bank will not move in the matter.

2028. I think the Bank has a large sum from the India Office; still that is another matter?—We have often tried to get the Bank to strike our balance at 4 o'clock in the day, but they will not, and I have to write off the amount necessary to meet a big liability at 10 o'clock in the morning, and therefore I have to provide the balance the previous evening.

2029. Your approved borrowers are confined to a certain number, and you cannot lend beyond those approved borrowers?—That is so.

2030. It often happens that one of the approved borrowers on a given day does not want to borrow at the same rate as another approved borrower borrows, but it would not pay you to keep the money idle, so you may have to take from one man an eighth less, or a sixteenth, and so on, during the day?—As a matter of fact we get almost universally the same rate from all our borrowers for the day. The broker has to find the best rate which can be obtained, and he gets that

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from all the borrowers. If any borrower will not pay that rate—and that frequently happens; if he says no, that is not the rate, or it is not a fair rate—then the money is taken from him and given to someone who will pay that rate.

2031. If you have a million to lend these 62 people, and only 40 or 50 of them will take half or three-quarters of the million on a certain day at 2½, or something like that, then you are met with the question whether you should not lend the remaining portion of the million at some concession rather than keep it idle over the day?—Sometimes the broker has held money over, thinking it would pay the office to lend it from the next day, because he could get a better rate than, perhaps, on the previous day. That the broker would consult me about.

2032. Discrepancies in the rate do occur, and you will find it sometimes three-sixteenths in the morning and three-eighths in the evening, so you cannot lend all your money on the same day at the same rate?—Perhaps not if the amount is very large.

2033. (Mr. Gillan.) You say in paragraph 14 of Appendix XI. (page 312) that the broker is usually not able to lend to the approved borrowers on security a larger sum than from 10 millions to 11 millions; what is the limiting factor?—The limiting factor is that it is usual in the case of smaller firms to impose a limit, and there is also an implied limit with the large firms. Then we find in practice that some 15 or 16 people on the list rarely take our money, and when we have lent to all those on the list up to their limit, and have also lent large sums to other firms who are not specifically limited, we find that the total amounts to about 11 millions.

2034. I was thinking more particularly of the memorandum of Mr. Abrahams where he spoke of the supply of the securities required being limited?—That element has come into the matter very recently. We have bought large railway systems of India, and we have taken over the debentures which they have raised, and they have become India debt, and we have been obliged, as they matured, to pay them off. Whereas about eight or nine years ago we had 18 millions in the form of bearer debentures, we have now only about 12 millions; so the market has become more limited, and we have recently taken Colonial Treasury bills and bonds partly owing to that difficulty.

2035. So it is partly a limit of the amount and partly a limit in the class of securities that can be deposited?—Yes. I cannot say how far now it is due to limits of securities, because there is a very large number of Colonial bonds on the market.

2036. (Chairman.) When that difficulty arose to which you have just referred, did you take any steps to increase the number of approved borrowers?—No.

2037. Did you wait for them to come to you?—Yes.

2038. It did not occur to the authorities of this office that it might be well to instruct the broker to see whether there were not other houses of equal standing who might be glad to come upon the list if the existence of the list was brought to their knowledge?—That was not done. I think there was perhaps some difficulty in taking that step, because if we approached any firm we should be obliged to accept them; we could not invite them unless we were fully satisfied ourselves that they were a suitable firm.

2039. You would have to make your inquiries beforehand?—Yes, and not after. It was not done, because the difficulty was considered to be a temporary one.

2040. One other question with regard to the position of the broker. I have here a letter explaining the terms made by another public department with their brokers, in which they say their brokers are paid an annual salary, which covers all the work done, including commission. I, of course, accept from you what you have said, that their work is not as extensive as the work of the broker of the India Office?—I know the department to which you refer, I think. They do not loan out; it is a different class of work.

2041. The work is not co-extensive with the work you do?—It is not the same in character. The work that the broker does for them is in the purchase

and sale of stock. Our broker's commission is for loans, as the main work he does for us is loaning our money, which is a different thing. I suggest that the things are not comparable.

2042. I understood you to say that, as far as he is selling stocks or purchasing stocks for them, he is paid by a fixed salary?—No, he is paid by a maximum salary, the maximum being the sum which you have in the paper before you. He is really paid very much less in average years.

2043. The letter which I have in my hand, speaking of the salary which is paid to their brokers, says "Naturally the fact that they"—that is, their brokers—"are known as the Government brokers brings them"—"a lot of private business." Is not the position of broker to the India Office worth something more than the salary in the same way?—I should think it probably was, but the broker has told me many times that he never has asked any firm with which we deal to place business in his way in consequence of it, and he is not conscious that they do.

2044. I did not mean to suggest that he was trying to use it in that way?—Nobody expected at all that people doing business and borrowing money from us would necessarily go to Mr. Scott with other business because he was our broker. I dare say it is an advantage to him, as it gives him a position in the market.

2045. You would perhaps agree that it was probable that the position of broker to the India Office would have a certain prestige attached to it?—Yes, that is so.

2046. Which might be a valuable consideration if a man was considering whether the terms of remuneration offered were sufficient to tempt him to take the office?—I certainly agree with you.

2047. (Lord Faber.) You were good enough to give us some figures about the Bank of England, and the condition of the account with the Bank of England. That seems to me rather an important question, and I have looked at the figures. You have prepared one paper entitled "Statement of Payments to the Bank of England and the Bank of Ireland for remuneration in respect of under-mentioned services." (Supplementary Statement II. to Appendix XI., page 329.) Looking back at the last six years to the total payments made to the Bank of England, I find these figures—61,489l., 60,842l., 65,166l., 72,767l., 64,539l., and 66,574l. That is the amount of the payments which the India Office actually made to the Bank for services performed?—Yes.

2048. Then I learn from the explanatory note B. to Statement No. 3 on page 319 in Appendix XI. that you are under agreement as well to do a very important thing, namely, to keep a balance of 500,000l. at the Bank of England without interest?—Yes. Assuming that our minimum balance is 550,000l., which in practice it is, we estimate that to be worth at 2 per cent. 11,000l. a year, at 2½ per cent. 13,750l. a year, and at 3 per cent. 16,500l. a year.

2049. When I come to look at the balances actually at the Bank of England, the figures of which you are good enough to furnish us with for 1912-3, I find that the balance has very often been a great deal more than 500,000l.?—That is so.

2050. In the last two years, which perhaps it is not quite fair to take, the balance was on one occasion 1,200,000l. and on another 2,295,000l.?—Which paper are you referring to?

2051. Statement No. 3, on pp. 320-7 of Appendix XI. If you look at those balances you will see that they run very high, and they are exceedingly valuable, of course, to any bank?—You will notice, if you look at column 4, that whenever there is a high balance, provision is made for a big payment next day in column 2.

2052. I dare say that may be so with the very high ones, but if you run your eye down the daily list you will find it is often about 600,000l. and 700,000l.?—Yes, it is.

2053. During the last two years I think I should be under the mark if I said that on an average that balance had been worth 3 per cent. all the time, and sometimes a good deal more. It comes to this, that

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you not only pay them 66,000*l.*, but you have paid them 20,000*l.* a year, I should think, in one way or another, for interest; that is, you have paid 86,000*l.* a year to the Bank of England. That seems a great deal, does it not?—Yes. I have called attention to that time after time, and our Finance Committee and the Secretary of State have made many representations to the Bank of England when we have had opportunities. Of course, we make agreements with them for certain terms, and we have done our utmost to get the rates reduced. Personally, I must say I think we pay very heavily.

2054. (Mr. Keynes.) Now that that question has been raised, I see that the minimum charge for the management of the rupee debt is 8,000*l.*?—Yes.

2055. What is the amount of the rupee debt now on the books of the Bank of England; I think it does not much exceed 7 millions, does it?—Yes; I think I am right in saying it is 12 millions.

2056. (Mr. Gladstone.) But it has been very much lowered?—Yes, it has fallen very much; it has fallen from about 18 millions to 12 millions.

2057. (Mr. Keynes.) Therefore the remuneration is now at the rate of more than 1,000*l.* per million?—I have here some papers about it. That matter was very fully gone into with the Bank and the terms for the rupee debt were raised in consequence of their representations. They represented that they were actually losing heavily on the scale we were paying before, owing to the staff they had to maintain and the separate office. They said a minimum must be fixed or the business would be unremunerative.

2058. Why do they have to have a separate office for the rupee debt as distinct from the other debt?—They say they must have a separate staff for it.

2059. I suppose that practice grew up when the amount of the rupee debt held in this country was very much greater than it is now?—No doubt. This is what the Bank said in a memorandum† forwarded to the India Office.

2060. What date is that?—1905. This was when the last agreement with the Bank was entered into. They commence their statement with regard to the rate of remuneration then existing by saying, “The charge for the management of these securities”—that is rupee securities—“was fixed in 1898 at a figure which has proved to be wholly unremunerative to the Bank. A separate office has to be maintained for the transaction of the work, which requires

“extreme care and is attended with considerable risk”—and then there is a long story which I need not read. The Commission will remember that we are not exactly in the position of free agents in our relations with the Bank of England. The Government of India Act of 1858 has tied us absolutely to them, and it provides that they shall be remunerated not on any scale fixed by Parliament but on a scale to be agreed upon; but seeing that we have no option but to go to the Bank, our negotiators, of course, are in a position of considerable difficulty.

2061. You would agree, would you not, that a system which costs 1,000*l.* per million for the management of the rupee debt seems, *prima facie*, an extravagant one?—It would appear to you and to me so, but, of course, we cannot go to the Bank of England Accounts and go into that. One must accept it that that is their view, and that they have good reasons for the view they express.

2062. (Sir Robert Chalmers.) In your relations with the Bank of England you are, to a great extent, conditioned by the arrangement made by the Treasury with the Bank of England, and you always would have that in view?—Yes, we have always had that in view.

2063. The arrangements with the Treasury are statutory under an Act of 1892, with which, I presume, you are acquainted?—Yes, that is so.

2064. That Act prescribes definite rates, 325*l.* for every million of debt up to 500 millions, and thereafter at the rate of 100*l.* for every million, and so forth?—Yes.

2065. That is an agreement and is a statutory agreement?—Yes.

2066. Section 4 (2) of the Act of 1892 goes on to say that those terms shall be in force until 1912 and thereafter until Parliament otherwise directs?—Quite so.

2067. So you cannot move very vigorously until Parliament has otherwise directed in respect of the Imperial Treasury?—Quite so. Might I say that the Chancellor of the Exchequer's attention was called to the possible termination of the present terms, and in a reply he gave in the House of Commons he said he was considering them, but it was not his immediate intention to take any action.

2068. All that is very present to the minds of the authorities of the India Office?—Yes. All those terms were fully before the Bank and the representatives of this office when the matter was discussed at the Bank.

The witness withdrew.

Mr. HORACE H. SCOTT called and examined.

2069. (Chairman.) You are the Secretary of State's broker?—I am.

2070. How long have you held the position?—I was appointed in January, 1904.

2071. I understand from Mr. Baddock that when you were appointed it was made a condition by the Secretary of State that you should join a firm to be approved by him?—That is so.

2072. I understand that you arrange all loans on behalf of the Secretary of State?—Yes.

2073. You also carry out all purchases or sales of securities on his behalf?—That is so.

2074. Do you do any other work for the office, or does that cover your business?—I attend to give advice as to the renewal of Indian railway debentures, and am always at the call of the Chairman of the Finance Committee and the Accountant-General.

2075. We have had before us the list of securities on which the India Office lends; may I, in the first place, ask whether you think the distinction can be justified which is drawn between, on the one hand, India debentures, India bonds, and guaranteed debentures in the several Indian railways, which the Secretary of State takes as security at their par value, and, on the other hand, Treasury bills, Exchequer bills, and Exchequer bonds, which are taken at their market value?—The borrower just has to make up the rebate

on such things as Treasury bills and Exchequer bonds, some of which run into 1930. I think it is to the advantage of India to take their own securities at par value—I mean not to depreciate their own securities.

2076. Regarding the India Office merely as lenders for the moment, there is no reason in the nature of the security why they should take those above their market value, is there?—No, not in the nature of the security; but by doing so they are able to issue or to renew debentures on more favourable terms than if they asked for a margin on such things.

2077. On the other hand, we have got it in evidence that on only two occasions, I think, has there been any difficulty with borrowers?—That is so—only two.

2078. And on both those occasions the difficulty arose in regard to this class of security against which loans had been made up to their par value?—That is so.

2079. Do you not think that, on the whole, there would be something to be said at least for not lending above their market value?—No, I think it would be advisable to leave things as they are. Some years ago, when money was very easy, debentures were issued on a 3 per cent. basis, but now, although they are nearer maturity, they are not worth par, I suppose they are about 99.

2080. In cases now it would pay a would-be borrower to go out into the market and buy these securities, because he could get from you immediately actually more money than he had paid?—Yes, that

† Not printed.

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has been so. You mean that a man with 99,000*l.* might get something worth 100,000*l.* immediately?

2081. Yes?—Still, you gain by being able to issue them and renew them on more favourable terms on this account.

2082. So you would say, would you not, that having to balance the interests of the Indian Government as a lender against the interests of the Indian Government as a borrower, you think the interests of the Indian Government as a borrower ought to prevail in this case?—I do.

2083. As regards the list of securities as a whole, is it ample for your purposes, or have you ever had any difficulty in lending as much money as you wished to lend on the securities included in this list?—Only when we have had a very large amount out. In normal times I mean, when the amount out has been considerably less, there has been no difficulty whatever.

2084. You could enlarge your list without taking any less good security, could you not?—The list has been enlarged within the last two or three months, and that has helped very considerably.

2085. I think I gathered from Mr. Badock that the India Office confine you to securities which are registered at the Bank of England?—Yes.

2086. Or bearer securities, which would, of course, be deposited with the Bank of England?—Yes.

2087. As far as I can gather, there is no statutory provision which renders that necessary, though it is a practice which the India Office has pursued ever since they took over the management of these affairs?—That is so.

2088. Do you think there is any advantage in that distinction?—In the case of registered stocks I think there might be difficulties if it were not so. For example, take a stock that has gone into the name of the Secretary of State; the chief cashier's office at the Bank of England do not accept what is called a stock receipt as evidence until they have seen the transfer book, which is brought from the transfer office and exhibited at the chief cashier's office to show that the stock has actually been transferred into the name of the Secretary of State. If stocks were transferable at other banks, the book could not, of course, be brought from that transfer office and exhibited at the chief cashier's office to show that the stock had been registered in the name of the Secretary of State.

2089. You do not think it would be sufficient to take a letter from the Joint Stock Bank to the Bank of England stating that that had been done? You were suggesting that the Joint Stock Bank would have to carry its transfer book to the Bank of England. Would it have to carry its register to the Bank of England?—That is the practice at the Bank of England, and this would be a matter for the Bank of England to decide.

2090. Is it necessary?—They do not accept the ordinary stock receipt as evidence without seeing the transfer book. There would be that difficulty. Then there is a difficulty to my mind of the stock being transferred out of the Secretary of State's name. The cashiers of the Bank of England are now attorney to the Secretary of State; I have not asked the question, and I do not know whether they would go about the city to different banks making these transfers out of the Secretary of State's name.

2091. You are limited, of course, in two ways; you are limited by the class of securities on which you lend, and you are limited also by the number of firms you have on your list?—Yes.

2092. I rather gathered that no efforts have been made to extend the number of firms?—I never go out and solicit firms to come on the borrowing list. They know the ropes, and if a new firm wants to come on they write to me a letter, which I have asked them to do, and which I forward to the India Office.

2093. Do you think it was generally known before the recent discussions that this practice prevailed?—Yes.

2094. I ask because one of our members who is in the City was not aware of it?—Did he not know that the *modus operandi* was to approach me?

2095. (Mr. Gladstone.) I did not know how the list was arrived at, or who was on it, or anything about it?—Anyone who wishes to go on the list comes and sees me; I ask him to put it in writing, and I forward the letter to the India Office.

2096. (Chairman.) Have you in consequence of the publicity given by the discussion in Parliament had any withdrawals?—One.

2097. Have any fresh names been proposed to you?—No, I do not think so.

2098. I think I must tell you that incidentally we have had under our consideration the remuneration you receive as broker. I put it to Mr. Badock, and perhaps I ought to put the same question to you: I asked him whether he was aware that certain other Government departments paid their broker by a fixed sum, or a commission with a fixed maximum. Perhaps you are aware of that?—I do not know how they pay. I do not think they pay by a fixed sum.

2099. I ought to make it clear. The cases I am referring to are for sales and purchases of securities and not for lending money?—That is so in those cases.

2100. I understand the arrangement with you as regards the sale and purchase of securities is of a very similar character, and that there is a limit to the amount of the commission in your case?—I believe—I do not think I am disclosing anything—they get a fixed sum whether they do any work or whether they do not. I should not like to be certain about it.

2101. In your case you get a commission at a certain rate up to a maximum of 1,500*l.*?—That is so.

2102. But in regard to the loans you are paid on the interest earned?—That is so.

2103. Owing to the growth of the business your remuneration received in that way has very much increased?—Yes.

2104. And has reached very high figures in some years?—Yes, but the work has increased.

2105. I do not ask you to say anything about this unless you wish, but I think it only fair to you to say that I suggested to Mr. Badock in the course of his evidence that the arrangement needed revision?—In 1911; or do you mean now?

2106. I thought the average of recent years had been very high?—I might also add that the work has been very great and the responsibility very great. The work has grown enormously.

2107. I asked Mr. Badock if it had ever been considered here whether an arrangement might not be made that the broker should work on salary, and whether that might not be an economical arrangement for the India Office?—It depends upon the salary fixed.

2108. (Lord Faber.) I understood from you that you think it helps India to lend on railway debentures, taking those railway debentures at par?—Yes.

2109. Did you also say there were some Indian debentures running as far on as 1930?—Those are Exchequer bonds.

2110. What is an Exchequer bond due in 1930 worth to-day?—I think about 96.

2111. And you lend 100 on that?—No, I would not lend 100 on that; they have to give me about 104,000*l.* for 100,000*l.*

2112. I suppose that the cashiers of the Bank of England do for the India Office, and very rightly do, things with regard to the transfer of stocks that they would not do for anyone else?—I am afraid I am not in a position to answer that. I do not know whether they are attorney to other people, so I could not say.

2113. I should have thought that as regards these other big banks who have so many stocks inscribed in their books now, it might be that they would make an arrangement to help the Secretary of State to get over that difficulty, of which you justly speak, of his getting in and out of stocks, because that would open certain good stocks which at present are not open?—It might. What stocks have you in mind?

2114. I have not any particular stock in mind, but there are many that we bankers see?—Quite so. If you are touching upon Colonial stocks I think you should

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have all or none, because otherwise there might be jealousy between one colony and another.

2115. (*Sir Robert Chalmers.*) When you send forward an application in writing for a new firm to come on to the list of approved borrowers, may I take it that you add to their application a recommendation with information as to your own inquiries concerning the standing of that firm?—I give such information as I can obtain, such as who the persons are, who their bankers are, and, in confidence, they tell me what their capital is.

2116. As a rule, it would not be merely the sending on of an application, but there would be a recommendation on your part?—They may ask me whether I know anything why these people should not be put on, but I do not recommend.

2117. You do not conjoin with the application a recommendation unless you are asked?—I may say, "I think that they might well be added to the list."

2118. The minimum amount that can be lent by you under the India Office regulations which govern you, is 50,000*l.*—Yes.

2119. If anyone wants more he has to take another 50,000*l.*?—That is so; it runs in multiples of 50,000*l.*

2120. Let us assume for the purpose of the question that the minimum of the first 50,000*l.* is right; is it necessary to have multiples of 50,000*l.* thereafter?—Having regard to the length of time, four weeks or five weeks, as the case may be, that we lend for, and having regard also to the fact that the firms are of high standing, I do not think there is any advantage in lending 75,000*l.* Is that what you mean?

2121. That is my exact point. Might it not be the case that a firm wanted 75,000*l.* and not 100,000*l.*?—It is very seldom that the point has ever been put to me.

2122. Do you think there is nothing in it?—I do not really. It might be the case.

2123. Your answer, I gather, had reference to the point of view of the borrower?—Yes.

2124. From the point of view of the lender, the India Office, might it not just happen that they had 25,000*l.* here and 25,000*l.* there, and it might be convenient to them to divide it in that way after the first 50,000*l.*?—It might be; I do not say that sometimes it would not.

2125. It never obtruded itself upon you from either the borrower or the lender?—No. They generally speak of 50's and 100's.

2126. Does this business take up your whole time?—Entirely. I am there every day and all day, except Saturdays and Stock Exchange holidays.

2127. As it takes up your whole time, your relation to the firm is not helpful in the business of the firm outside this particular business?—I scarcely have any other time whatever; the whole day is practically taken up with it.

2128. And you cannot find time for any other work which the prestige that the Chairman referred to might bring?—I sometimes see a few clients in the office, and identify people at the bank, and write a few letters, but practically my time is entirely devoted to India.

2129. Was that always so with you since, I think you said, 1904?—No, not always, but the work has enormously increased.

2130. In which years—in the last three or four—take 1906?—I should think from about 1907 or 1906.

2131. In 1905 you had a certain amount of leisure?—There were loans due every day as far as I can remember.

2132. There must always be work, but there was not perhaps absorbing work; was that the position?—The work was lighter, we will put it, perhaps in those years than in the last four or five.

2133. Do you advise as to the rates of issue of new loans?—As to the price of issue.

2134. Have you to do with the issue of loans?—Yes, I attend at all meetings of the Bank of England with others when the price is discussed.

2135. Your work is not then exclusively restricted to the lending out of surplus balances?—No. The new issue of stock would only occur once in a year.

2136. But you do come in for that?—Yes.

2137. With this pressure of work which you indicate, can you keep fully in touch with the market?—Fully.

2138. Your work of itself is sufficient?—That is how I gauge my rate, by keeping in touch with the market.

2139. For Indian purposes you do not keep in touch by non-India office work but by the actual work that you do for the India Office?—That is so.

2140. (*Mr. Gladstone.*) Touching the question of your remuneration, do you care to give the Commission any information as to the estimated cost of your office and your establishment there in connection with the loan business? That has been referred to already, and you might like to say something?—I should say it was 1,700*l.* or 1,800*l.* a year—something between that. I could not say for certain.

2141. Do you know the charge made by the Bank of England to private customers for lending money against Stock Exchange securities?—I do not think I do for certain, but it is generally believed that the charge is $\frac{1}{2}$ per cent. per annum, being $\frac{1}{4}$ per cent. for the bank and $\frac{1}{4}$ per cent. for the brokers.

2142. Touching the list of securities, is not the system that has prevailed at the Bank of England about transfers generally considered antiquated and inconvenient by the general public?—Are you referring to the ordinary public—everybody?

2143. Yes?—I do not know, but I do not think so. I think it is an exceedingly convenient way of making a transfer. They have recently brought in transfer by deed of Consols.

2144. (*Mr. Keynes.*) You have explained to us the practice on which the chief cashier at the Bank of England insists in order to satisfy himself that the transfer of stocks is in order; in your opinion is this elaborate practice of his a wise and necessary precaution?—I should have thought the evidence of a stock receipt was quite sufficient if signed by the transferor and also witnessed by one of their own bank clerks.

2145. If he did not insist on this elaborate procedure, then there would be no particular objection to placing on your list securities inscribed at other banks?—I do not know. As far as that goes, there is the objection when the stock is transferred out of the Secretary of State's name.

2146. Do you think these other banks could not easily give evidence which would satisfy any reasonable person of the fact of the transfer?—I think it would raise difficulties.

2147. If these technical difficulties could be overcome, would it assist you in obtaining a good rate of interest to have your field enlarged by being able to accept additional securities?—I do not say that the rate would be improved, but I should certainly be able to employ some of the cash balances by the addition, we will say, of some colonial inscribed stocks.

2148. Would it facilitate your business if, apart from technical difficulties, you were allowed to lend on such security?—I think it would a little.

2149. I understood from Mr. Badock that you do not receive authority from the India Office to lend for longer periods than six weeks?—No, it is four or five.

2150. It is not often as long as six?—That is so.

2151. And it is more often four or five?—That is so.

2152. If they authorised you to lend for somewhat longer periods, would that appreciably affect the rate of interest you could earn?—It depends upon the period covered.

2153. If in the course of a year there were occasions on which you could lend for a longer period, you could earn more, could you not?—I do not think so. It entirely depends upon the months that are covered. I think, on the average, this system is as good as any.

2154. Do you mean that a person who is prepared to lend up to 10 weeks cannot get more over a number of years than a person who is only prepared to lend up to four or five weeks?—It would be very difficult to say. At the present moment, for example, over the 30th June, the end of the half-year, money is very

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[Continued.]

much wanted and I can get 4 per cent., and I am getting it for the first few days in July, although money for a week is $3\frac{1}{2}$ and discount for three months is about $4\frac{1}{2}$ or $4\frac{7}{16}$. But then when my loan falls due, perhaps on the 7th or 8th July, it is a speculation as to what money is going to be for the next month.

2155. I can understand that sometimes it pays you to lend for short periods and sometimes for long periods, but I should have thought that, if you had the power to lend either for short or for long periods according to which was the more profitable, that you would earn more than if you were tied down to one period?—I would have two options, do you mean, and instead of being tied down to four or five weeks I might have nine weeks or I might have 10 weeks?

2156. Yes?—I am afraid I have never looked at it in that light at all, or thought about it.

2157. You have not any opinion on the matter that you are prepared to give at the present moment?—That is so. It is quite a speculation as to what money is going to be in 10 weeks.

2158. I understand that you make all loans on a given day at the same rate to all borrowers?—That is so.

2159. At whatever time of the day you arrange it?—I get through, if I can, by perhaps 1 o'clock.

2160. What is your method? I do not know if you go to visit the borrowers?—I do go to borrowers.

2161. When you go to the first borrower you will not have the information in your possession as to the rate at which you will be able to lend all that you can lend that day, will you?—I have found out all I can before I go to the first one.

2162. When do you go to the first borrower?—About half-past 10.

2163. By then you have settled the rate at which you are going to lend all the money that day?—Yes; I have made up in my own mind what is the right rate to ask and to accept for that month by ascertaining what daily money is, what weekly money is, what the bill rate is for about the period of my loan, whether the banks are buying bills like that, and so on.

2164. Having a figure in your mind you go round to certain approved borrowers, who might find that they could take a certain amount at that rate?—Yes.

2165. But by the end of the day you might find that you had slightly over-estimated the rate and you could not place all you had at that rate?—That has occurred, but it has only occurred quite recently. I have never, in my nine years, had anything over until the last few months.

2166. (*Sir Robert Chalmers.*) That would be, however, because you were asking a good bargain for your principals?—That is so.

2167. (*Mr. Keynes.*) If you very seldom err in the direction of asking too much, would that not suggest that you must often err in the direction of asking too little?—No. I have found on some very few occasions that I have gone to a man and by great pressure I have got a certain rate from him, then I go all round the market and I find that I cannot get that particular rate anywhere else. So I have found that I squeezed him or pressed him too hard, and I go back to him and say, look here, I find the real rate is so-and-so, and I have put you down at so-and-so.

2168. That was the point I wished to reach. If you ask a higher rate at the beginning of the day than you can get later, so that some of your loans must be contracted at a lower rate, then you make them all uniform and go back to those at the higher rate and give them the lower rate?—Say I have got seven or eight people to go to, and I have done four of them at a certain rate, then I will make those other four give me my rate or else I offer my money elsewhere until I get that rate.

2169. Can you always get that rate in the end?—I have got it, with one or two exceptions.

2170. May I ask this for information: Is it the practice of other big lenders in the market to do all their business on a given day at the same rate?—I cannot answer for other people, but I should say so.

2171. (*Sir Robert Chalmers.*) Always assuming that there was no catastrophe that had happened in the afternoon?—Quite so.

(*Lord Faber.*) As regards that, our practice as a large country bank when we have money to lend is this: We send telegrams to three or four of the large discount houses in the morning to ask what they would lend bills at; there is generally a difference between them, but as a rule perhaps three of them are all the same and the fourth would be different, not necessarily the same one always, but one of them would differ.

(*Witness.*) If I find I have got my rate from four people and I have got three other people left, I squeeze them up, and if they do not come in to the rate I take the money away and offer it elsewhere.

2172. (*Mr. Gladstone.*) You could give instances of that, could you not? There was a case, I think, of a loan that you made with the National Discount Company; they would not give you your rate of $4\frac{1}{2}$ and you called the money in?—I constantly do that.

2173. I happened to go to see them that day, and I gave them the money and they found they had made a mistake?—They did.

2174. I should think you could verify the date; the rate there was $4\frac{1}{2}$ or $4\frac{3}{4}$?—I am constantly, very constantly indeed, employed in that way. It takes up a great deal of my time. When a firm, or firms, will not give me my rate, I have got to relend that money at the rate I want, and that takes up the majority of my time. The work may look a little on paper, but I assure you that a very great deal of my work is not seen on paper. I may have to go to eight or ten or a dozen, or perhaps even twenty firms, in order to lend my money, or to renew it, when I am paid off by somebody who will not give the rate.

2175. (*Mr. Keynes.*) There is one question I should like to ask you with regard to your remuneration: At present, as I understand, your remuneration is proportioned to the interest earned?—That is so.

2176. So that in years of dear money it is a good deal higher than in years of cheap money?—Yes.

2177. And does not entirely depend upon the volume of business passing?—That is so.

2178. Would you think an arrangement, by which you were paid according to the volume of business you did, rather than according to the rate of interest earned, to be a fair one?—How would you gauge what was the work done? As I have just explained, a tremendous lot of work is invisible.

2179. I should gauge the work done by the amount of loans which you put through, apart from the rate?—The interest, after all, whether it is 4 or $4\frac{1}{4}$, what does it amount to?

2180. I am putting simply this point: When a suggestion of a fixed salary was put, you quite rightly suggested that it made no allowance for wide fluctuations in the amount of trouble; the present system takes account of the trouble, but it also takes account of something which is not concerned with you at all, namely, the rate of money, so that your income fluctuates through something which is not in the least under your control, and which does not affect the amount of trouble that you have. Is that system satisfactory to you?—It is more difficult to lend money in easy times than it is when money is wanted; although the remuneration would be smaller the work would be harder.

2181. In that case you get less remuneration when the work is hard?—It is very difficult to lend when nobody wants to borrow, and the remuneration is smaller.

2182. Is that system satisfactory?—It is rather. The system has been turned round several times. I believe in my father's time—he was also the India Office broker—I do not know what it was in my grandfather's time, in 1842—he had a scale, and if the rate was under $1\frac{1}{2}$ per cent. he got $\frac{1}{16}$ per cent., over $1\frac{1}{2}$ per cent. and under 3 per cent. he got $\frac{1}{8}$ per cent., and over 3 per cent. he got $\frac{3}{16}$ per cent. In 1888 the scale was altered to make it a round 5 per cent. on the interest. That worked out almost the same. That

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continued till 1911, when it was altered to its present form—not on my suggestion.

2183. (*Chairman.*) And not to your advantage?—Not to my advantage, nothing like it.

2184. The alteration was a reduction?—It was very much reduced; it is equal to a 60 per cent. reduction, if you look at it; I mean the work for 10 millions of loans out is the same as it would be for four millions.

2185. (*Lord Faber.*) The largeness of the loans just lately has saved you, has it not?—Yes. If my present scale went back to the years when my predecessor held the appointment, say 14 years ago, when he earned 3,300*l.* a year, on my scale it would be 1,600*l.*; when you work off the expenses there is not much left for the broker.

2186. (*Sir Shapurji Broacha.*) Are you always able to lend at one rate?—I always settle upon one rate.

2187. Suppose you have two millions to lend and you have given one million at 3 per cent., and there are no takers at 3 per cent. that day for the other million, and that you cannot lend it except at $2\frac{7}{8}$ or $2\frac{3}{4}$, what will you do? Will you go to the first men and reduce the rate to them to $2\frac{7}{8}$ in order to equalise?—I do not think that question has ever arisen that I have got such a huge sum of money to lend on one day. I have never had such a case as that.

2188. In business discounting, in the morning you discount at $3\frac{1}{2}$ and in the evening you may discount at $3\frac{1}{4}$?—That is just possible.

2189. The rates are always fluctuating; and you say, in order to equalise them, you go back to those you lent at a higher rate and reduce the rate to them?—I should not wait till the afternoon to do my work; that would be, in my opinion, speculating with my order. I have got to do my work and not look to other men.

2190. When a broker goes to a firm it takes him about an hour, or it may take only half an hour, but in the meantime the rates have gone back, and the other borrowers may say, "The market" "is lower to-day, owing to some circumstances," "political or otherwise, and so you have a difficulty in "getting the same rate." I suppose, according to what you say, you will then go back to the first borrowers and reduce the rate to them?—That is only if I find one solitary exception, or possibly two, out of perhaps eight or ten houses with whom I have got money. If I find that I can get the rate from the majority of people, then I hold out until I do get it. I should never go back except in one solitary case or possibly two cases.

2191. I lend money, and I know that I take different rates not only in the same day but in the same hour?—I think it is to the interest of India to stick to one rate.

2192. I know what a farce it is to go to 10 or 20 people, because by the time you have got to the twentieth the rates have declined; of course they may have appreciated also. Then in case they have appreciated, would you go back to the first borrowers and say they must give you the appreciated rate?—No. I think if the rate was on the verge of appreciating I should have no difficulty in lending; and I should not have to go to so many people. It very rarely occurs that I have to go back to one or possibly two when I have got 10 or 12 on my list and say, I find that the rate is so-and-so. Of course, if I did not go back to him, A would very soon find out what rate I have accepted from B, and then he would say, "You did not treat me fairly."

2193. If I go to the National Bank and discount bills at $2\frac{3}{4}$ per cent. and then I cannot get more than $2\frac{1}{2}$, would the broker who was already notified of the transaction at the first bank reduce it because the other loans could not be done at the same rate?—I have only reduced it where I have got the higher rate under great pressure, and the man has given it, perhaps not knowing what the rate has been.

2194. (*Sir Robert Chalmers.*) You are dealing with a limited number of permanent customers?—Yes.

2195. To that extent, do you understand your position to be somewhat different to that indicated by Sir Shapurji in his recent questions?—I am confined to a certain circle.

2196. And it is your interest not to snatch an exceptional profit from one of them to-day?—Quite so. If A finds out that I have charged B $3\frac{1}{2}$ when I have charged him $3\frac{3}{4}$, he might accuse me, and I think rightly so, of favouritism, and I do not think that would be in the interests of the India Office.

2197. You are dealing in a world market as regards lending?—Yes.

2198. Which would not necessarily apply to every market, perhaps those that Sir Shapurji had in mind?—That is so.

2199. (*Sir Shapurji Broacha.*) You have got 62 names on your list, but they are not all of the same status, are they; for instance, you would not consider a broker's firm to be of the same standing as the National Bank?—The small man's security is as good as the big man's.

2200. (*Chairman.*) The difference would be in the amount you lend?—Quite so.

2201. Did you have anything to do with the deposits that were made to the banks?—I negotiated them with the various banks.

2202. Did you select the banks?—No.

2203. But you negotiated the terms with them?—I negotiated with these different banks and then reported to the Chairman what I could obtain, and I received my orders.

2204. Was a list of the banks given to you to which you should go?—That is so.

2205. Or were you authorised to go to any bank that you thought of sufficient standing?—No. The banks were selected, and I was instructed what banks to go to.

2206. (*Mr. Keynes.*) Was it left to you how much you would lend to each bank, or only the terms on which you should lend it?—Only the terms.

2207. The amounts were not left to you?—No.

2208. (*Mr. Gladstone.*) Do I understand that in those cases a particular bank was selected, or did you go round the approved banks in the same way as you did with the approved borrowers?—I went to the approved banks.

2209. The name of a particular bank was not given to you and then you were told to get the best rate you could from them?—No. I would go first to a particular bank and report the rate that I could obtain from them.

2210. (*Lord Faber.*) You only went to the banks that you had instructions to go to from the India Office?—That is so.

2211. You did not choose the banks, but you went to the banks that were named to you?—Yes.

2212. (*Sir Robert Chalmers.*) You had an approved list of banks, as you had an approved list of ordinary borrowers, given to you?—Yes.

2213. (*Mr. Gladstone.*) And you were not asked to go to one particular bank?—Only to ascertain the best rate.

2214. (*Chairman.*) It is possible that your answer to an earlier question may be open to misconception. You were not instructed to go to one particular bank, but you were given a list of banks; is that so?—First, I had an order for a deposit—will you offer it to so-and-so, and if the rate is not agreeable then will you offer it to so-and-so and so-and-so? I think that was the procedure.

2215. There was a list of banks approved, as I understand, for this purpose?—Yes.

2216. Assume that there was a deposit to be made, you were informed of the amount of that deposit?—Yes.

2217. How was the rate of interest settled that was to be obtained on it?—I negotiated with these different banks, and I found out from them what was the best possible rate they would give, and reported it.

2218. Therefore, if you were told, for instance, that the Secretary of State wished to place 200,000*l.* on deposit, you would have gone to all the banks on your approved list and inquired of them what rate they would give you for it?—I went and saw the Chairman of the Finance Committee and discussed the thing with him, and he would instruct me as to the banks and the rate that I might accept.

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2219. He instructed you to go to a particular bank ?
Yes, to ascertain the rate.

2220. And offer it to that particular bank ?—
Quite so.

2221. At a particular rate ?—First of all, to ascertain what that particular bank would give.

2222. And if the rate was satisfactory, then the deposit was offered to that particular bank ?—Yes.

2223. (*Lord Faber.*) That bank being one out of the list ?—One out of seven.

2224. (*Chairman.*) The routine was not that you should necessarily inquire of at least three or four banks on the list, what their rates were when you had a particular sum to lend ?—I always found out what the discount rate was.

2225. (*Lord Faber.*) Supposing you had 10,000*l.* to lend by order of your superior officer, did you then go to the whole seven selected banks and try what each of them would give you ?—Not always.

2226. How would you decide which out of the seven to go to ?—I did not always try each one of the seven.

2227. How did you make up your mind that 1, 2, 3, 4, 5, and 6 would not give you a worse rate than 7, to whom you did not go ?—I would not go to the whole of the seven. Perhaps three or four banks on one particular day might say: "I cannot give you more than such and such a rate."

2228. (*Chairman.*) Did you ever make a deposit with one bank without having inquired of the other banks what they would give ?—I may have, when it first originated.

2229. If you did so, were you acting on your own discretion or acting on instructions ?—I had my instructions as to what rate I might accept.

2230. Did your instructions also say, within the limit of the list, of which bank you were to accept that rate ?—I would have instructions that if I could not get the rate from A I should offer it to B; then I would go back, and so forth. If I could not get it from B I would go to C.

2231. (*Lord Faber.*) In fact, you did not get the best rate, to your knowledge, out of the whole seven banks; you had instructions to get, we will say, 3 per cent. from one bank, and you went to that bank and took 3 per cent. ?—I always obtained the best rate that could be got.

2232. Without knowing whether the other six banks would give you more than 3 per cent. ?—I did not go to all seven on one day, but very often the deposit was split amongst four or five banks; and that was a check upon the rate.

2233. You did not put them in competition with one another on that particular job, if I may put it in that way ?—I always checked the rate before fixing it up.

2234. (*Mr. Gladstone.*) In this case, two of the members of the Finance Committee were bankers ?—Yes.

2235. And the Chairman of the Finance Committee, under whose general authority you acted, I suppose with the Accountant-General, is also a banker ?—Yes.

2236. What the Commission desire to know is whether when these amounts of money were put on deposit the best rate was obtained, and whether you were confined or ordered to give the deposits to a particular bank, or were bound in each case to ascertain, and did ascertain, the best rate from all the banks on the approved list. You might not have gone to them every day, but the rates would be known ?—Quite so.

2237. You did not place those deposits with particular banks in accordance with the orders of the Chairman of the Finance Committee, although as Chairman of the Finance Committee of course he had the responsibility of instructing you to make the deposits ?—Yes.

2238. (*Chairman.*) Did he leave you full discretion to make the deposit with any bank on the list, or did he indicate to you that you were to go to a particular bank on the list and offer that particular deposit ?—I had to go to a particular bank and find out what that particular bank would give; I would go back again

and report, and if it was not accepted I would have to offer it to somebody else and see what they would do.

2239. Did the Chairman settle with you what you both thought was a fair rate ?—Yes.

2240. The best rate you could obtain ?—Yes.

2241. Did he then instruct you to offer the deposit to bank A at that rate, without inquiry as to whether bank B or bank C or bank D would pay you a better rate ?—As a rule there were three or four banks due for renewal of the deposit on a particular day, or if there were fresh deposits, say of half a million, it would be divided up, perhaps 200,000*l.* here, 100,000*l.* there, and 200,000*l.* there, and would be offered in that way. By that means one got to know what was the best rate, and whatever the best rate was that bank had it and the other bank did not have it. So I screwed them up to the best rate available.

2242. In each case you formed your own judgment about what the rate should be, and if you secured the rate which you had decided to ask, you gave the deposit at once; is that it ?—I found out by competition, putting one against another, what was the best rate obtainable, and then got my instructions from my superior.

2243. You had in a particular case, we will say, three deposits falling due from banks A, B, and C ?—Yes.

2244. Did you go to those banks and say, "What rate will you give me for a renewal of the deposit ?"—Yes.

2245. If you had fresh money, you were instructed to go to another bank ?—Yes.

2246. And ask them what rate they would give ?—Yes.

2247. If one of the banks offered you less than you obtained from the others, what happened ?—I withdrew the deposit and offered it somewhere else.

2248. And you got the higher rate elsewhere ?—Yes.

2249. That is not clear from your early evidence, I think ?—I thought Lord Faber asked did I go to all seven banks ?

2250. (*Lord Faber.*) Yes, so I ask still ?—I cannot say I went to all seven, but I might go to the majority of them.*

2251. (*Chairman.*) You went, in your opinion, to a sufficient number really to test what was the best rate that you could get ?—The deposits were very often paid off by one because they would not give the rate I was asking, and then the money was redeposited with somebody else.

2252. In no case, therefore—I think I had better put the question quite bluntly to you—did the Chairman of the Finance Committee, who had to arrange these matters with you, and who was himself a banker, commit you to deal at a particular rate with his bank, unless you had tested that rate by making application to other banks ?—I always tested the rate if I had a deposit with that particular bank.

2253. (*Mr. Keynes.*) Did you receive instructions from the Chairman of the Finance Committee as to which bank should have the first offer at the current rate of the day ?—I had instructions as to what banks to go to, and I went, perhaps, to the one which was first on the list.

2254. I understand that if a bank did not give you a satisfactory rate you went elsewhere ?—Yes.

2255. But in selecting the bank you first went to and gave the first offer to, did you act on the instruc-

* 1. In further reference to Lord Faber's question as to why I did not always go to all the seven banks, I should like to explain that it was the policy to keep the amounts of the deposits with the banks as even as possible, so that if through deposits being called in three or four of the banks had less than the others, I would naturally go first to these banks and not necessarily to all the others provided the best rate was obtained from them.

2. When I had a deposit to make I saw the Chairman of the Finance Committee, and after discussion he stated that, if his bank was going to take any of it, the best rate he could give was *x*, but if I could do better elsewhere I was to do so; which of course I always attempted to do.

The same remark applies to renewals of deposits.

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tions of the Chairman?—My instructions from the Chairman were as to what rate I might accept.

2256. Did you also have instructions as to which bank you should offer the loan on those terms?—I went to that bank first and then there may have been three or four that I went to afterwards.

2257. Were those three or four named to you by him, or did you select them yourself?—The Chairman generally named them.

2258. (*Chairman.*) Do you not think it would have been better, when you had money to lend on deposit in this way, to have seen all the banks and said, "I have so much money to lend, what is the best rate you will give me?"—But then the deposits varied so much; sometimes there were 200,000*l.* to put on deposit, sometimes 400,000*l.*, sometimes 300,000*l.*, and I do not think it would have been advisable to tell all the banks how much money the Council had to put on deposit at one time.

2259. Is that any objection to the course that I suggested?—These were exceptional deposits, and you would not offer a bank those amounts. I think they went in amounts of about 100,000*l.* apiece.

2260. I do not mean that you would necessarily offer the whole amount to one bank, but that you would fix in your own mind the limit which you would entrust to any one particular bank at a given moment, and then, having that money to lend, you should have asked all of the banks whether they could take the amount that you were prepared to lend, or that you thought it safe to lend each one of them, and if they were prepared to take it, what rate they would give to you? Then you would have been certain that you would have got always the best rate that any of the seven banks could have given, would you not?—Yes.

2261. I do not understand that the practice, as you have explained it, gave any guarantee that one of the other banks on the list might not on any particular occasion have given you a better rate of interest if they had had the offer. Do you think there was any guarantee of that?—I only went to such banks as I was instructed, in order that the amounts might be kept as even as possible, provided that the best rate was obtained.

2262. (*Mr. Gladstone.*) I suppose your action would have been affected to some extent by the amount of

the deposits which you knew were already out?—Exactly.

2263. If, for instance, two or three of the banks had half a million or a million or more already?—That would be so.

2264. You would not have gone to them, because they might have had enough money?—Quite so.

2265. That might have limited your action on a particular day?—That very often was so. Perhaps I did not explain it clearly. Perhaps one bank had got a certain amount and another bank had not got quite so much.

2266. (*Chairman.*) If in any particular bank they had got the full amount that you thought it desirable to lend to them, you might treat them as not being available for the moment?—That was so.

2267. Did you always ascertain what was the best rate you could get from any of the banks on the list to whom you were prepared to lend more money?—I think so, certainly.

2268. Therefore on each occasion you would have got a quotation from every bank except those which had already got so much money that you did not want to put more with them?—I think that was so.

2269. (*Lord Faber.*) Then you did not receive instructions from the Chairman to go to certain banks?—I always received instructions from the Chairman. There were only four banks on, up to a certain period, and after that the number was increased to seven.

2270. (*Sir Robert Chalmers.*) Which were the first four?—The National Provincial, the Westminster, the Union of London, and the City.

2271. That was in what years?—In 1909 to 1911, I think.

2272. The others came on later?—The others came on later.

2273. (*Sir Shapurji Broacha.*) I suppose your Chairman is in the position of knowing the finest rate, having so many people visiting him?—I should say so. He would know the bill rate probably better than I do.

2274. (*Mr. Gladstone.*) Might I ask whether the fact of the Chairman being a banker himself, and knowing the market so well, would not be an advantage to the India Office?—I should think so, certainly.

The witness withdrew.

At the India Office, Whitehall, S.W

SEVENTH DAY.

Friday, June 20, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman.*)

Lord FABER.
• Lord KILBRACKEN, G.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.

Sir JAMES BEGBIE.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary.*)

Sir DANIEL MACKINNON HAMILTON called and examined.

2275. (*Chairman.*) I understand that you are here to-day as a representative of the Bengal Chamber of Commerce?—Yes, the Chamber have asked me to express my views, but my views do not necessarily commit them in any way.

2276. You have submitted a memorandum to us, and I propose, as we have done with the other witnesses, to print that in your evidence (*see Appendix XVI., page 518*). Does what you have just said as to the

views of the Bengal Chamber, refer to the whole of your memorandum?—Yes.

2277. Would you tell the Commission very shortly what has been your experience in matters relating to Indian finance and currency?—Only the ordinary business experience of 25 years in India.

2278. We have had it in evidence that the large cash balances held in India and London of recent years were due to exceptional causes; I rather gather from

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Sir DANIEL MACKINNON HAMILTON.

[Continued.]

your memorandum that you would agree to that statement?—Yes.

2279. And that you do not criticise the Government for the large amounts to which these balances have risen in recent years?—No, I believe that the balances might be larger.

2280. I also gather from your memorandum that you are heartily in favour of the practice of selling Council bills and transfers in order to bring the balances to London?—Yes.

2281. And also of the practice of lending the London balances out in the City?—Provided they cannot utilise them to better advantage in India.

2282. Do you think that they might have been used to better advantage in India?—Yes.

2283. I will return to that answer later. I gather also that you think the Government has perhaps paid too much attention to capital expenditure on railways with a view to assisting the export trade, and has thought too little about the internal development of India?—There is so much money in hand that they can develop both railways and irrigation, which is so much needed for the internal trade of the country. I do not think that they need starve the irrigation work.

2284. In paragraph 10 of Appendix XVI. (page 519) you speak of the “‘gamble in rain,’ so christened by ‘Sir Guy Fleetwood Wilson.’” I think he used that phrase in reference to the Indian budget, was that not so?—He applied it to the Indian financial system really.

2285. What do you think he meant by it?—It means this, that the Indian Government never wants to borrow more than it can possibly help, whereas I say, by not borrowing, for every sovereign not borrowed it loses 20s. worth of produce to India.

2286. Does not the phrase mean that the realisation of the budget estimates depends upon the rain?—Yes.

2287. That if there is a particularly good season there will be a surplus?—Yes.

2288. And if there is a particularly bad one there will be a deficit?—Yes; but the deficit can be made up by borrowing.

2289. I want, first of all, to get at the exact meaning of the expression “gamble in rain”?—Government make such a fetish of what they call the avoidance of debt.

2290. In fact, I suppose, in preparing their financial statement Government budget in the expectation of a normal year, having to make their estimates at a time when the climatic conditions on which the character of the year depends cannot be foreseen?—What the Government look to is, Square your own accounts; that is all they look to, and they do not consider that they are losing the produce.

2291. Is this your criticism—that they pay too much attention to balancing revenue and expenditure, and that they should be comparatively regardless of the amount of their revenue, but budget for large expenditure, relying on borrowing if the revenue fails?—What it amounts to is this, they lose a sovereign’s worth of produce for every sovereign they do not borrow.

2292. Is it your criticism that they ought to carry out a steady programme of development works irrespective of budget receipts?—Yes; irrespective of the rainfall, budget receipts, and anything else.

2293. But you do not suggest that they can eliminate the consideration of the rainfall from their estimates of revenue, do you?—That is my contention.

2294. You think they can?—Yes.

2295. I was using the word “revenue” as meaning the produce of their taxes?—I will explain what I mean, if I may, by means of this diagram,* which is illustrated with photographs, and show you how they may do it. These are photographs of a property of mine in Bengal. The surplus crop of the year is represented by this heap of rice; that has to find its way to Europe, and those are the bags going to Europe. On the rice reaching Europe, it is turned

into gold coin, the gold coin passes in turn through the council chamber into the Treasury balances; the latter are already chock full, so it passes on, and it eventually creates a water tank for an irrigation canal. That is what happens when Government gets the gold. When Government does not get the sovereigns by means of the council chamber, the gold escapes the Government comes round this other way, and lands for circulation in India, or goes into the hoards of the people—it does not matter which; it becomes dead there, as you can see. When a bad year comes round, the export trade is wiped out, and there is no gold flowing towards Europe at all. To keep this irrigation work going the Government comes into the market and borrows European capital, which flows from the Treasury and so keeps the irrigation canals going. In that way the irrigation canals and the railway programme are going on all the time, whether the rainfall is good or bad. In the following year the export trade begins again, but instead of the sovereigns then flowing into the Government chest, they flow towards Europe and repay the European capitalist; he is paid off. By one of these two means the irrigation canal or the railway is kept going all the time, and therefore you can keep your programme going, whether there is a rainfall or not.

2296. (Sir Ernest Cable.) You mean that you would make up a deficit by borrowing?—Yes, and the borrowing is paid for by the next good year. In that way India gets the canals for nothing.

2297. (Chairman.) I think I understand your meaning to be that the development programme of India ought to be secured by borrowing freely whenever necessity arises, and ought not to be in any way checked by a deficiency of revenue in a particular year?—Exactly; and your borrowing can be paid off next year from your surplus.

2298. What therefore you mean by that gamble in rain is that at present if the rains are good the revenues increase and there is a surplus?—Yes.

2299. And also there is a considerable development of work?—Yes.

2300. But if the rains fail then there is no surplus, there may even be a deficit, and the work stops?—Yes, and India suffers from restricted development. All that can be avoided by this system which I have explained.

2301. Now will you explain to me this sentence in that same paragraph 10 of Appendix XVI.: “Some years ago Government, with a strong hand, suppressed ‘rain gambling in Calcutta.’” —Sir Ernest Cable knows what I mean,

2302. But I do not, so perhaps you will explain it to me?—Certainly. In the hot weather we get showers perhaps every three or four weeks, and as the rains approach, the probability is that those showers will become more frequent. There was a gamble whether the rain would fall on a particular day or not. There was a little tank with a spout fixed up on the top of a house in the Burra Bazaar of Calcutta, which is the big native market place, and if the rain fell sufficiently for this spout to run, it was considered to have rained, and the man lost or won his bet accordingly. This gambling became such an evil in Calcutta that the Government stepped in and killed it.

2303. That was pure betting as to whether it would rain on a particular day or not?—Exactly.

2304. Do you think that that has any parallel to the financial procedure of the Government?—I am using Sir Guy Fleetwood Wilson’s own phrase; he calls it a gamble in rain, and I want to kill that.

2305. In order to kill it it seems to me that you gave it a bad name and thought that would hang it?—I hope it will.

2306. With regard to the Paper Currency Reserve, is it your view that the invested portion of the reserve is very small in proportion to the total circulation, and that the amount in gold is too large?—The amount of gold is far too large. Supposing they keep in hand a sufficient supply of silver to pay off to-morrow every 10-rupee note out at present, they would still have 12 millions sterling in their pockets lying idle, which could be freed to-morrow for development purposes,

* Not printed.

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and yet still, as I say, leave enough silver for every 10-rupee note that is out.

2307. In making that calculation I understand you hold that the gold should not be taken at its gold value as at present, but at its rupee value?—Yes, because the Indian people cannot claim gold. Silver is the legal tender of the country, and all they can claim is silver; and therefore all that gold is simply lying dead and useless.

2308. You would treat that gold as the equivalent of the number of rupees which could be coined with the silver which it could purchase?—Exactly. With that 12 millions of gold you can coin about 20 crores of rupees.

2309. I gather you hold the view that with the gold so set free you should proceed with the development of railways or with other capital expenditure?—Yes, and for this reason: If you spend those 12 millions sterling in locomotives or railway wagons or anything else you like in England here, in that case you return that gold to Europe, you immediately relieve the money markets of the world, and in addition to that you increase employment in Europe here. If you order 12 millions' worth of rolling-stock you can see what a tremendous boom in trade that would create.

2310. You said the first effect would be to relieve the money markets of the world?—Yes; it will place 12 million sovereigns in the Bank of England to begin with.

2311. I take it, therefore, you would regard the condition of the London money market as of the first importance to India?—It is immaterial whether it is in England or in India, so long as the Empire has got the gold. The Empire still keeps this gold and does not part with it; the gold comes to England and remains in the Bank of England. At the same time you create employment by ordering 12 millions' worth of railway material in England. You can see what a tremendous relief that would be to unemployment.

2312. I want to get your view exactly, if I can: One of the criticisms directed against the Secretary of State has been that he has thought too much of the London market; I gather from what you have said to me just now that you think the condition of the London money market is of great importance to India, and that anything which relieves stringency here directly serves Indian interests; am I right?—Yes, that is so, in this way—that the money set free develops India. It helps both; it helps India and it helps you.

2313. I think you hold that the Government of India ought to encourage the use of a paper currency by the people of India as far as possible?—Yes, it ought to encourage the use of a paper currency; but then it is not purely a paper currency; you have got the silver reserve against it, and so it is backed up by silver to the extent required.

2314. For metal currency purposes?—It is practically a silver currency, because the paper is backed by the silver.

2315. But for actual use in circulation, would you encourage the use of a paper currency?—Whatever the people want, let them have it. If they want paper, give them paper; they can cash that into silver whenever they want to do so.

2316. Does that apply equally to gold? If they want gold would you say, give them gold?—No; do not give them gold. For every sovereign of gold you give to the people, India loses a sovereign's worth of produce, and you get nothing in exchange.

2317. That is the key to your memorandum?—Exactly.

2318. In your opinion, gold in India lies idle, whether in currency or in hoards?—In any case India loses one sovereign's worth of produce, and that is not the end of it. If you invest that sovereign in irrigation works, say, at an ordinary 5 per cent. return—as a matter of fact, irrigation works give a 10 per cent. return, and railways give 4 per cent. or 5 per cent.—but taking an average of 5 per cent., that means that that sovereign in 14 years has doubled and become two sovereigns, because money doubles in 14 years at 5 per cent. But that is the smallest part

of the loss. If that sovereign is sunk in irrigation works, it creates 100 per cent. for India in food—I have got the Government figures here to show that every £ spent on irrigation creates a £'s worth of food. So in the 14 years you gain 14 sovereigns in food, plus the 2l. in the way of capital; therefore, for every sovereign lost to India, that is, which has been put into circulation or put into hoards, India loses 16 golden sovereigns. That seems a bold statement to make.

2319. If I understand you rightly, what you say comes to this, that if India takes payment in gold she takes payment in something which is only of use for the purpose of exchange?—Exactly so.

2320. Which, if not so used, is wasted?—That is so.

2321. But if India takes payment in goods, in railways, or in irrigation works, it then gets an actively productive force?—That is my meaning exactly.

2322. It not only gets the value of the gold which it might have had?—But it gets 16 sovereigns over and above in 14 years.

2323. Through the development which has taken place?—Exactly. In 14 years that sovereign gains 16 sovereigns, so for every sovereign India loses she loses 16l. of produce.

2324. Lord Faber suggests that the payment of labour has got to come out of those sovereigns?—That does not matter. The people are fed all these years.

2325. (*Lord Faber.*) By the Government?—Perhaps you have read Ruskin's "Unto This Last." He makes the statement there that the whole of wealth is life. That is an economic fact. Credit is no use until you turn it into cash; cash is no use until you turn it into food; and food is no use until you turn it into flesh and blood.

2326. (*Chairman.*) The general effect of this evidence is that in your opinion it is of the highest importance that the Government should use all the funds it can for the purposes of development?—Just so. But it does not require to use all that it has got, or anything like it. It has got 60 millions of gold in its pocket now, and does not require to use a fourth of that.

2327. I think you admit, however, that there must be a silver reserve for the paper currency?—Exactly, and I am not touching that; it has got that in either case.

2328. And you admit also that Government must have a gold reserve for the exchange?—It must have the Gold Standard Reserve.

2329. At what figure do you think the Paper Currency Reserve ought to stand?—You need not take a single sovereign or piece of silver out of your currency reserve. You can do what I say without touching your reserves in any way under this system which I have explained to you.

2330. I understood from your memorandum that you propose to take money out of the Paper Currency Reserve?—But the Treasury fills up again in the next good year. The money flows into the Treasury then, but in the bad year the flow into the Treasury stops and you draw from the London money market. Then the good year comes along again and you repay the London money market, in that way paying off your debt. In the meantime you have got your railway for nothing.

2331. I cannot follow the process by which anybody gets a railway for nothing?—You do get it I assure you, and you get not only one but you get as many as you want. You have 12 millions in hand now, have you not?

2332. What reserve are you talking of?—The surplus currency reserve. You have got 12 millions in hand there now, have you not?

2333. (*Sir Ernest Cable.*) Do you mean in addition to what is required to cash every rupee note?—Yes; is that so or not so?

2334. (*Chairman.*) That is what we are wondering about?—Perhaps some of the official gentlemen will confirm my figure.

2335. How do you get at that figure?—That is the difference between the actual value and the paper value. In the Government accounts the sovereign is valued at

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15 rupees, whereas with the sovereign you can buy 22 rupees.

2336. Then the 12 millions of which you are talking is the difference between the gold written at 15 rupees to the sovereign, and the gold written at, say, 22 rupees to the sovereign?—Exactly.

2337. (Mr. Keynes.) You are not proposing both to turn the gold into silver and also to invest it, are you?—Yes.

2338. You really are proposing to do both?—Yes, I am going to do both. I am getting double power.

2339. With the same gold?—With the same gold.

2340. But after you have invested the gold you no longer possess it?—I have shewn you how it comes back again. You keep your Treasury intact. I would like the gentlemen all round the table to understand this before going any farther. (*Referring to diagram.*)* These are photographs of my place at Sunderbund.

2341. Is this to explain how you bring in the reserves?—This is to explain how you never tap your reserves at all. This photograph shows actual India at work, and that shows India's surplus stock; you see it piled up in that little heap.

2342. (Sir Ernest Cable.) That is the profit?—Yes. Here is my Indian merchant coming round to buy it. They clean it, you see, before they take it away. There is a man there with a fan in his hand; that is how they clean it.

2343. (Mr. Keynes.) What is the next step?—They bag it, and I have shown here the bag going to Europe, and there the European market. Then gold comes back in payment for the produce. The gold coins pass through the Council Chamber and right through the Treasury reserves, which are chock-a-block now, and then go to create an irrigation tank, or a canal, or a railway.

2344. That is to say, these sovereigns are spent?—Yes.

2345. So now the Government has no sovereigns at all?—It has got the same stock it had before.

2346. But it has spent them?—No, they are there. This is the reserve as it stands now.

(Sir Ernest Cable.) But that is not the old gold.

2347. (Mr. Keynes.) And the new gold that has come has now been spent?—The produce is turned into gold in Europe; the reserve as it is now is chock full of gold; the sovereign therefore passes through, leaving that gold as it is, and is turned into an irrigation canal.

2348. It has passed into the irrigation canal?—The gold has.

2349. By being spent?—Yes.

2350. So the Government has so longer the gold?—It has the gold; and I want to show you how it gets it back again.

2351. By a further stage does it get it back again?—The next year is a bad year, and the export trade is stopped. In that year the Government borrows in Europe and the gold comes back from Europe. It passes through the reserve and still leaves that intact; then it comes out and keeps the irrigation works going and also your railway.

2352. (Sir James Begbie.) In a bad year does the Government borrow in London, or where?—They do not borrow, but I say they ought to borrow.

2353. (Sir Ernest Cable.) This diagram of yours illustrates the ideal, does it?—This is what might be. What actually happens when Government stands out in the market and does not borrow, is that the gold escapes them. If the Government raise the exchange to 1s. 4½d. the banks will not buy the gold.

2354. (Mr. Keynes.) They build the irrigation canal out of the money they eventually borrow in London?—Yes, and I show you how they repay it. The next year the gold comes back, escapes the Government, and, landing in India, passes into the currency, or into hoards, it does not matter which; but it does nothing that a paper note would not do.

2355. When the Government spends the gold which

it has got in its reserves, that also flows into the same source, does it?—No.

2356. Where does it go then?—In labour.

2357. Into the pockets of the persons who make the tank?—Yes; it has created a tank.

2358. Just as it goes into the pockets of certain other persons in other circumstances?—Yes. When the export trade stops there is no gold going round at all, but the export trade begins again when the good year comes and the gold flow begins again with it. If the gold escapes the Government it lands in India, and in the bad year the Government draws from Europe, but not in the next good year, which fills up the European chest again, and as it pays off Europe keeps your tanks going.

2359. (Sir Ernest Cable.) This is new to me at the moment; I must say I cannot resist the feeling that you are using the money twice over?—And you are using it twice over; that is what I want to do.

2360. Can we all go on using money twice over?—It is this way: You have 12 millions in hand now; say you build a railway with it, and when you build your railway suppose you sell it; with the gold you get you build another railway and sell it; when you sell that railway the gold comes back, and when it does come back you build another railway and sell that; and so on indefinitely.

2361. (Mr. Keynes.) To whom do you sell the railway?—To anybody who wants to buy it.

2362. What do they give you in return? I can understand the process by which you build a railway with gold and then sell that railway for gold?—You get the gold, the price of the railway.

2363. Is it simply a system by which the Government builds railways and then sells them to private persons?—Yes; in that way that 12 millions will make railways indefinitely.

2364. Only so long as the private persons can be found to buy the railways?—Exactly; but if private persons do not want them India keeps them herself.

2365. In that case she can only build one?—No; she goes on indefinitely.

2366. But unless private persons buy that railway she has no money to build a second railway?—I cannot follow.

2367. (Chairman.) Will you look at paragraph 6 of Appendix XVI., page 518? You say there, under the head of Treasury Balances, "The Treasury balances remaining in India should be freely lent out in India to first-class banks?—Yes, that is so.

2368. Your opinion is that the Treasury balances are kept at a higher figure than is required by the needs of the Indian Government?—I understand that that is so. I understand very often that large sums are in hand, but they will not lend them out unless they get the full bank rate; for instance, if the bank rate at Calcutta is 7 per cent., the Government will not lend to the banks unless it gets 7 per cent.

2369. I think that in paragraph 7 of supplementary note A to Appendix XVI. (page 529) you suggest, assuming the bank rate in India to be 7 per cent. or 8 per cent., that the Government should lend these balances at 1 per cent. below the English bank rate?—Yes.

2370. Would that not be conferring a very signal favour on a very small class of the community?—I do not think so, because this is money that would be lent to the trades, and the whole country would benefit.

2371. But they will not have sufficient money to lend to every possible borrower?—It depends on the amount of the reserve.

2372. Can you conceive of any reserve that would enable them to lend to every possible borrower?—I understand that the reserves are generally big enough to lend to the banks.

2373. Then the banks to whom it was lent would be receiving very favourable treatment?—They would borrow at 4 per cent. and re-lend at 5 per cent., which would mean 1 per cent.

2374. They would re-lend to certain people at 5 per cent.?—They would re-lend to the trade—to whoever wanted it. In that way trade benefits and the country develops.

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2375. What I put to you is that they would not have enough to lend at that special rate to all the people who came to them?—Of course, if they have not got the money they cannot lend it; but they can have the money, as I explained, by this system of mine.

2376. In that case they would have to pick out certain clients who should have money at 5 per cent., while to other clients offering the same security they would be charging 7 per cent. or 8 per cent.; is that not so? Perhaps I do not make myself quite clear?—I do not quite follow.

2377. The assumption is that the Indian rate is 7 per cent. or 8 per cent., that the Government then lends, we will say, a million of money to certain banks at 4 per cent. on the condition that those banks shall lend it out again at not more than 5 per cent.—Yes.

2378. To the extent of that million, the banks will lend on good security at 5 per cent.—Yes.

2379. But the moment that million is exhausted they will have to charge 7 per cent. or 8 per cent. on the same security?—Not necessarily, if they have got 59 millions more.

2380. The moment the money placed at their disposal is exhausted, they will have to charge the higher rate to any other client?—No; give them another million, as trade requires. The Government have 59 millions now in their pocket; give trade another million on short notice.

2381. Is it your view that the resources of the treasuries are inexhaustible?—Yes, inexhaustible.

2382. What do you mean when you say in paragraph 6 of Appendix XVI. (pp. 518-9), "Personally I should like to see more taken from the people in the same way, for, if the Government does not take it, the people's creditors will." Do the words "in the same way" refer to taxation?—Yes. The Government and the people are one, and whatever the Government take they give back in another form. If they take it in the form of a railway, they give it back in military services, or in sanitation, or in medical services, or in anything of that sort; it always goes back again.

2383. You think, in fact, the Indian Government will spend the people's money more wisely than they will spend it themselves?—Undoubtedly so.

2384. In paragraph 7, headed "The Gold Standard and Paper Currency Reserves," you say that the Gold Standard Reserve ought to be held in London?—That is my view.

2385. Because it is in London that it will be wanted?—Yes.

2386. You see "no objection to investing the greater portion of the Gold Standard Reserve in easily realisable gold securities, not putting too much into one basket"?—That is so; but I go beyond that, and I say you can invest the whole, if you want to do it. You do not want to do it in fact, but if you do want to do it, you can invest every sovereign and you can keep the sovereign in your pocket. That seems rather curious.

2387. That is a point I wanted to put to you. In your opinion it is not necessary to keep any part of the gold reserve in bullion, is it?—It is coming in all the time. You pay it out at one end of the chest, and it is coming in at the other end.

2388. But you do think it necessary to keep a sufficient amount of Paper Currency Reserve in bullion so as to be able to redeem the notes which might be presented?—Yes; and that you have now.

2389. Together, I think you say, "with a safe margin for emergencies"?—Yes.

2390. You go on to say "using it to supplement the Treasury balances as required by trade"; is "it" the margin which you keep for emergencies?—It is that, or as much more as you like; it is really as much as trade requires. You have 59 millions in your pockets now, and you can give trade one, two, or three millions.

2391. Would you mind looking at paragraph 8 of Appendix XVI. (page 519)? There you say, "With regard to the currency reserves, as much silver coin as is likely to be required to encash currency notes presented to Government for payment, should be kept in India, with a safe margin for emergencies, using it

"to supplement the Treasury balances." What is "it" there; is it the whole of the money so kept, or is it only the margin which you reserve for emergencies?—You can use both, say, the whole; as a matter of fact, it goes out at one end and comes in at the other end.

2392. And in paragraph 16 on page 521 you suggest that some form of Government bond might be created, to be kept in the Paper Currency Reserve as part of its investments, I understand?—Yes.

2393. To represent the money spent out of reserve on capital expenditure?—Yes.

2394. Do you think that in case of a sudden demand for rupees there would be time and opportunity to convert such bonds into metal?—Yes. As I have been trying to explain, the chest never need be emptied by a single sovereign; by the Government surpluses, or by borrowing you can keep the Treasury always full. What you borrow from the public this year you repay next year out of your surpluses.

2395. But suppose they had not a surplus next year?—Then just wait till the year after.

2396. They would borrow again?—Yes.

2397. In fact, their expenditure ought not to be conditioned by their income?—No. A surplus is bound to come sooner or later, otherwise India would have burst years ago.

2398. You would borrow boldly?—Borrow boldly.

2399. To whatever extent might be required?—I would borrow boldly at one end of the Treasury, and as your good years come round you repay what you have borrowed.

2400. In fact, as I understand, you would start with the consideration of what it was desirable to do if you had limitless money?—Yes.

2401. And then you would do it?—Yes, go through with it, thick and thin. You can do that and still keep your reserve Treasuries, both your Gold Standard Reserve and your Paper Currency Reserve, chock full. Is that so, or is it not so?

2402. I think I am here to examine you, not to be examined?—I mean to say that, if I am wrong, I want to know where the fallacy is.

2403. I understand your view is that gold in circulation—I am not now speaking of gold that is hoarded—is wasteful?—It is all the same whether it is hoarded or whether it is used as currency.

2404. Is it as wasteful in circulation as if it was hoarded?—It is, in this respect. For fertilising purposes, gold of course is useful, but paper, or the silver currency which India has, fulfils exactly the same purpose. The Government collects this sovereign through Council bills here in London and pays out 15 rupees at the other end; those 15 rupees will fulfil exactly the same purpose as if the gold coin were kept in circulation for fertilising purposes.

2405. Therefore, the paper or the silver has all the advantages of gold in India, but gold has advantages for use outside India; is that your view?—Just so, you use the sovereign here to develop India.

2406. I would like to ask you incidentally whether you have formed any opinion of the extent to which the gold which has gone into circulation in India, has been hoarded, or is being hoarded?—I saw some figures the other day to the effect that in the last 10 years the Government had paid out from the Treasuries 47 million sovereigns.

2407. What I wanted to get at was whether your experience led you to form any view as to the proportion of that sum which remained in circulation?—In India I never see a single sovereign. I can get them at the bank if I want to, and I change my spare rupees into gold to come home with—I can always change them at the bank—but you never see gold in circulation in India, at least I never see it.

2408. (Sir Ernest Cable.) In Bombay and the Punjab sovereigns circulate?—Yes, they circulate in the Punjab, but I am speaking of Bengal.

2409. (Chairman.) Should I correctly represent the idea which you have been trying to convey to the Commission if I said that you regarded gold in India only as a cheque which could be drawn upon Europe?—Exactly.

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2410. And which would be useless until it was drawn and honoured?—Exactly; until it is drawn India never receives the equivalent in produce. Since 1835 India has imported about 300 million sovereigns which are still lying uncashed.

2411. I think your view is that the Secretary of State ought to sell his Council bills, not only freely as he does, but at such rates as would prevent gold ever going to India?—He should sell at 1s. 4d. to the rupee; that will secure him every sovereign.

2412. Your view being that he should intercept all gold that might be drawn to India?—Yes.

2413. He should frame his rates so as to prevent gold being shipped?—Exactly.

2414. I think you said to me just now that you saw no necessity for keeping any bullion in the Gold Standard Reserve; if I am wrong, please say so?—My view is that, when you are drawing out from your Gold Standard Reserve, it is coming in at the other end, so that your Gold Standard Reserve remains untouched.

2415. What is the object of the Gold Standard Reserve, in your view?—To ensure the value of the rupee.

2416. To maintain the par of exchange?—Yes.

2417. Do you not think for that purpose it is necessary to have an immediately available sum in reserve in gold?—Yes, and you have 60 millions in reserve now.

2418. Not in the Gold Standard Reserve?—But you have altogether.

2419. You are taking the Paper Currency and the Gold Standard Reserves together?—Yes. You have 20 millions in the Gold Standard Reserve, I think.

2420. The Paper Currency Reserve has a different purpose to serve?—Exactly, but that does not matter. It is a matter of accounting, really.

2421. Are you not setting up a reserve to redeem your notes, and then counting that reserve as available to maintain exchange? If it is wanted for the one purpose it will not be available for the other, will it?—Yes.

2422. Can it at the same time be available for both?—Yes, by borrowing. You draw from one end of the chest, and borrow and fill up the chest at the other end.

2423. At the moment when you would naturally call upon the Gold Standard Reserve to maintain the exchange, what do you think the effect of large borrowing would be?—You need not make your borrowings large; you can borrow every day, if you like.

2424. Suppose you borrow every day, what do you think the effect on the exchanges will be?—Do you mean the effect on the Indian exchanges?

2425. Yes. Suppose the exchange is falling, and at that moment the Indian Government is borrowing freely and has no gold reserve?—The exchange cannot fall below 1s. 4d.

2426. Why?—Because the Government has got the gold to ensure that.

2427. I thought you said the Government need not have any gold, but that it could borrow instead?—It borrows, but then it fills up the borrowing in the good years.

2428. If the Gold Standard Reserve were used as you would wish, it would be largely utilised for reproductive works in India?—Yes.

2429. If a crisis came, and it was needed for the maintenance of exchange, am I right in supposing that you assume that it would be possible for the Government immediately to borrow on the reproductive works so created?—Yes. You have 12 million sovereigns in hand just now, which is more than India wants for reproductive purposes; you have that in the difference in the exchange alone, and India does not want it at the present moment. In addition to that, you have got 48 millions in hand available to maintain exchange.

2430. The 12 millions are the difference between the gold value of the Currency Reserve and the rupee value?—Yes, and India does not want all of that just now.

2431. Therefore your first proposal will be to diminish the Currency Reserve by lending 12 millions?—I mean to say, lend as much as is required. We do not want 12 millions; two or three millions will be enough just now.

2432. By whatever amount you do require for your immediate development programme then?—Yes.

2433. Suppose that were done and we had exhausted that reserve in the course of time, then we should come to the Gold Standard Reserve?—Yes.

2434. I understood from Appendix XVI. that you thought a large portion of that also might be spent on reproductive works?—Yes.

2435. Is that because you think it can never be wanted for the maintenance of exchange; or is it because you think that even in that form it will be available for the maintenance of exchange if wanted?—Yes, because I should pay it out at one end of the box, and it comes into the other by borrowing, so the box is always chock full.

2436. Is your argument based upon this, that the power of India to borrow for reproductive purposes is unlimited?—It is unlimited so long as she increases her productive works. The more she increases her productive works, the greater her credit is, and the more she can borrow as wanted.

2437. But the power to borrow is irrespective of the condition of trade at the moment, or of the state of the London money market at the moment?—She would only borrow when her trade was bad and when she had no surplus in her pocket from a good year.

2438. (Mr. Keynes.) Do I understand that you want to spend money out of the Gold Standard Reserve for building railways?—That is possible. I do not want to do so.

2439. You want to spend out of it for reproductive purposes, and then you would replenish it by borrowing?—Yes.

2440. Why should you not borrow right off and leave the Gold Standard Reserve alone?—We do not want to borrow. We have got 12 millions of gold in our pockets now, and all we want is three or four millions of that, so why should we borrow?

2441. (Chairman.) Now may I return to another subject, the question of the gold currency? In paragraph 22 of Appendix XVI. (page 523), after quoting the opinion of the Fowler Committee in the preceding paragraph, you say events have falsified the view that the hoarding of gold would not be materially increased; do I gather that your opinion that the hoarding of gold has been materially increased is based on your personal experience in Bengal?—No; I am basing it on the Government figures.

2442. Those figures show the amount of gold which has gone into circulation, but are there any figures which show the amount of gold which remains in circulation?—There is nothing to show that—absolutely nothing. I understand that the Government figures show that India has imported more gold and less silver than before.

2443. You are not, I think, favourable to the establishment of a mint in India?—As I say, I am totally against gold coinage for India anywhere, either here or anywhere else, and therefore I could not favour a mint.

2444. That, I think, is a little more than you have said hitherto. I understand your view that a gold coinage is a wasteful use of gold is not confined to such conditions as now remain in India, but is general?—It is general, because every sovereign in circulation means that India has parted with some of her produce and has got nothing back.

2445. With regard to the loaning of money to the banks, the Government, I think, already have considerable balances with the Presidency banks?—I suppose they have; I do not know what they have, really.

2446. Do you fix any limits in your mind as to the amount which they should lend to the banks under such circumstances as you have foreshadowed?—With the enormous gold reserve they have, they might as well give to trade all it wants. Even then there would be plenty left.

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2447. Would you ask for any security from the banks?—Not from banks like the Presidency banks. If necessary they might be asked to secure it, but I do not think it is wanted. From the exchange banks like the Chartered, the Hong Kong, or the National Bank of India, or from the Presidency Bank of Bengal, you would not want much security; but let them give security, certainly.

2448. Some criticism has been raised on the action of the Secretary of State in London in lending money without security to the first-class banks here; but you do not think there is any force in that, apparently?—If it is at short call, you can get it back whenever you want it. I do not think there is much in that. If you want security, take it, certainly.

2449. Suppose the Government, for purposes of trade, had lent large sums to the Presidency banks, then suppose they wanted the money back; do you think that the last state of the Indian market might not be worse than the first? Trade would have been helped and encouraged by the large sums lent by the Government, but by the Government suddenly coming in and recalling all those sums, might that not produce a very serious financial crisis?—I do not see why Government should come in when they have got 50 millions of gold behind them. There is no occasion for them to come in.

2450. Then really you do not see any reason why these balances should only be lent on short loans?—Lend them on short loans and call them in when they are wanted.

2451. There is no object in lending it as call money, unless you can call it in?—Certainly not, but there is no reason why you should call it in with 50 millions of gold at your back.

2452. Do you think it would be unsafe to lend it otherwise than as call money, or for short periods?—As a matter of business, one likes to have money on call if it should be wanted, but I cannot imagine how it should be wanted with 50 millions behind you.

2453. It is an excess of precaution, and is not really required for safety?—Certainly.

2454. I was going to ask you why you prefer that loans should be made from the balances, rather than from the Paper Currency Reserve?—That is immaterial.

2455. I think what you said to-day was that you would lend from either or both?—It is a matter for the Government of India, really. My idea was that the Treasury would be the department in touch with the public, and you should just have one department in touch with the public, with the reserves placed at the disposal of the Treasury if they wanted so much.

2456. The object of all this is to keep the available loanable capital in India; is that so?—Yes.

2457. Has it occurred to you that something of the same kind might be done by the extension of the powers of the Presidency banks; if, for instance, they were given power to borrow temporarily in London when there was a keen demand for money in India?—I do not see why they should come to London to borrow if the Government has so much gold behind them.

2458. You say the Indian Government is closer at hand and ought to do the business?—Undoubtedly.

2459. Now I turn to the question of the State bank. Are you in favour of the creation of an Indian State bank?—Not necessarily. I do not see that a State bank is necessary. What I want to do is to finance the internal trade; whether that is done by a State bank or by the Presidency banks does not matter. If it can be done by the Presidency banks, and I think it can be, let it be done by them. Apart from that, I do not see why a State bank is wanted.

2460. In paragraph 34 of Appendix XVI. (page 526) you deal with the financial organisation of the India Office. You say there very clearly that "there is absolutely no reason for thinking that the Finance Committee of the India Office have ever deliberately made the interest of India subservient to the interests of the London banks and financial houses," but you think it would look better, "in the fierce light which beats upon the throne, if London bankers did not

"have the ruling voice in the management of India's finances and cash balances"?—Yes.

2461. Then you make a suggestion as to the composition of the committee, which should include one London banker, I think?—Yes, in order to get the benefit of his experience—that is all.

2462. You are of opinion that the Secretary of State must have expert advice on matters of that kind?—Undoubtedly.

2463. And that he could not rely entirely upon such advice as he could expect to receive from civil servants?—I do not think he ought to. It is so large a subject that he should get all the experience he can from London bankers and Indian bankers—indeed, from all round.

2464. In fact, your object in framing this suggestion has been to secure as representative a body as you could of all interests concerned?—Yes.

2465. Without giving a predominant position to any of them?—Still retaining for the Indian representatives the power of lending balance in India. I suggest there should be one London banker on the committee, and all the other men should be interested in India, not in London. That would secure that India's balances are used for the benefit of India. If London preponderates on the committee, it would look—I do not say it does—as if London might get the preference.

2466. You have seen, I think, a copy of the letter addressed to the Commission by the Bengal Chamber of Commerce?—Yes.

2467. Have you any observations you desire to make on that letter?—The only observation I make is that I strongly object to the coining of a single sovereign, even for sentimental reasons. A sentimental sovereign means the loss of a sovereign's worth of produce to India.

2468. (Sir Ernest Cable.) The Chairman asked you a question with regard to Sir Guy Fleetwood Wilson's expression of a gamble in rain, and I should like to ask the question in a slightly modified form, so as to get your views. Do you not think that the very uncertainty of rain, which is inevitable however great India's development may be, makes it imperative to keep large liquid reserves so as to maintain exchange, instead of dissipating those reserves in the manner you suggest?—I do not dissipate them; I show you they are kept intact.

2469. They are first spent, of course?—They are spent, it is true, but the chest is always kept full.

2470. Do you consider that your method is consistent with an absolutely stable and good currency?—You keep the currency reserves intact, either in gold or in silver, and therefore you do not interfere with their stability in any way.

2471. In the crisis of 1907–8 the Government paid out 17 millions and practically exhausted their stock of gold, I think?—Yes.

2472. Do you think it is wise and prudent to invest those resources? You have been suggesting investing those resources in railways, I gather?—Exactly. You can do that, and yet you can keep your box intact. That is what I am afraid the Commission have not quite grasped yet.

2473. I gather, then, to put your whole policy as you have developed it to-day in a very general manner, that your idea is to run the whole country from a commercial point of view, using the profits in development and spending them on capital account, so to speak?—Exactly; and unless you do that India is losing her produce. Since 1835 India has parted with 300 millions sterling of produce for nothing. There are 300 million sovereigns or gold cheques lying in India to-day which have never been cashed.

2474. Those are profits, of course, connected with taxation?—No, those sovereigns are the profits on the balance of trade; those are the net imports of gold into India.

2475. You do not suggest that your policy involves a fixed taxation, which might or might not be excessive, do you?—It will relieve taxation because it

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develops the country. It increases the produce of the country, and therefore it relieves taxation.

2476. With regard to your remarks on Gresham's law, I would like to clear this up. You say in paragraph 22 of Appendix XVI. (page 523) that gold will be driven out of sight, but how do you reconcile that with the fact that some gold is still in circulation, that the amount is increasing yearly, and also that the Government have large gold balances which the people can have if they want?—What has gone past the Government Treasury is out of sight.

2477. What has gone into the country, do you mean?—What has gone into the country is out of sight, but the Government can bring those sovereigns in sight by playing on this exchange. If the Government sells its Council bills at 1s. 4d. it will secure every sovereign.

2478. Do you think that Gresham's law is in active operation now in India internally?—It seems to be.

2479. Surely every sovereign would have disappeared long ago if it was in full operation?—Every sovereign has practically disappeared; I mean to say, it is lost to India. There are 300 million sovereigns practically out of sight now.

2480. You have handed us in a very interesting memorandum from Mr. Fremantle on agricultural banks (supplementary note B to Appendix XVI., pp. 530-6). He takes a very sanguine view that there is plenty of capital for developing agriculture in India; you do not agree with that, I gather?—What I say is that you want to organise that capital. That is why I want banking organisation for the agricultural population in order to organise that capital.

2481. What he said was that it was available from the agriculturists, and I gather that he did not look to the banks in any way for help, if I read his memorandum correctly?—A lot of those little capitalists are agriculturists, as a matter of fact. On my own property in Sunderbund there is a moneylender who was an agriculturist. He was the man who ran the place.

2482. I suppose you would call him a banker for the purpose of this inquiry?—He is a banker.

2483. You suggest that a central bank or a State bank should devote some part of its funds towards financing agriculture?—Yes, just to give the thing a start. If it is started, then funds, I understand, will not be required from the Government. When Lord Curzon passed the Co-operative Credit Societies Act in India Sir Denzil Ibbetson, who was the man in charge, said that for every rupee put in by the people the Government would put in one rupee. The Government has never been called upon for that rupee. It merely wants a bit of a start from the Government, but once the thing is started and the people see how the thing is working they will put the money in and the Government will not require to put in a halfpenny. A little assistance is wanted at the start.

2484. I am inclined to agree there, and that perhaps it would be more the province of Government to help agriculture than a State bank?—All I want Government to do is to provide more of those organisers of co-operative credit. There is only one man in Bengal, Mr. Gourlay, to preach this co-operative gospel to about 50 or 60 millions of people.

2485. I am afraid this is rather outside our terms of reference. I was only going to make one suggestion with regard to getting money and facilities for agricultural purposes. Have you considered the question of the savings banks, which have agents in every little village, because every post office has a savings bank? Could not the savings bank deposits be utilised in that way?—I think, as a matter of fact, under the Act the societies have the power to put their money in there.

2486. (Mr. Keynes.) I understand you are of opinion that the Government ought to discourage the circulation of gold by all reasonable means?—Yes.

2487. And you base that view mainly on the circumstance that the use of a cheaper medium of exchange sets free resources for other purposes?—Yes.

2488. Could you say at all how widely those views are shared by other business men in Calcutta?—I do

not think business men have realised what it means. Business men have not realised that all those 300 million sovereigns lying in India are uncashed cheques.

2489. You think this view of yours is not widely shared by other business men, then?—It will be when they realise what it means, but they have not realised it yet.

2490. At present it is not widely shared?—Because they do not understand it. If those 300 million sovereigns which are lying in India to-day were bodily lifted by the Government and brought to Europe, they would buy 300 millions' worth of European goods to which India is entitled. That sum has never been cashed yet, therefore India has lost 300 millions sterling worth of produce since 1835, and has got nothing in exchange.

2491. (Chairman.) Does the same apply to the gold in my purse?—No.

2492. Why not?—Because this is the balance of trade due to India which has been received in gold. Europe has paid for it by a gold cheque.

2493. (Mr. Keynes.) In paragraph 6 of Appendix XVI. (page 518) you suggest that the Treasury balances should be lent to first-class banks; from an answer which you have given to-day I understand you to include in the term "first-class" Presidency banks and exchange banks?—Yes.

2494. Any others?—I should not like to recommend any others. There are one or two banks such as the Allahabad Bank.

2495. (Sir Ernest Cable.) And the Alliance banks?—Yes; they are local banks, and they are perfectly sound.

2496. (Mr. Keynes.) Would you include them under the term "first-class"?—Certainly.

2497. If it was thought right to ask security from these banks, could they give good security in large quantity, do you think?—If they could not give it, do not give them the money.

2498. I am not asking you that question. If it was thought right to ask for security, could they give it?—I daresay they could raise it, as they are very strong financially.

2499. What sort of security do you think the Government could accept?—They could accept securities like Calcutta Port Bonds, the Bombay Port Trust, or Government paper, or things of that kind.

2500. If the banks were asked for paper of that kind, what sort of amount do you think the Government could lend against the security? Could the banks of India provide five millions worth of that kind of security?—They can provide 20 millions, and still have 40 millions in their pocket.

2501. My question is: If the Government were to offer to lend five millions of Treasury balances against such sort of security as you have named, namely, Port Trust loans, and so on, would the banks provide security up to that amount of five millions?—I do not know; but whatever they want to borrow, if they are not able to give security for it, then do not let them have it.

2502. You do not think that they could give very much security?—I do not say that. I do not know what their resources are, and therefore I should not like to say that.

2503. You have no clear opinion on the point, and feel doubtful?—I have not their accounts before me, and I cannot say until I see their accounts.

2504. (Sir Shapurji Broacha.) What do you mean by saying that there are 60 millions in hand at the present moment? There are 27 millions in the currency, 18½ millions in the Gold Standard Reserve, and two millions in paper, that makes 47½ millions; how do you get the difference between 47½ millions and 60 millions?—The whole reserve, I suppose, is turned into gold now.

2505. It only makes 47½ millions at present?—Of gold, or gold securities?

2506. Taking gold and gold securities?—In addition to that, you have got your silver.

2507. You say that you can convert the 27 millions of gold in currency into 40 crores of rupees, and have a

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balance of 12 millions which could be employed in the Public Works Department?—As far as may be necessary, but the Department would not want it all, as a matter of fact; they would only want a share of it.

2508. You would destroy the whole fabric of the gold standard, because there are only 18½ millions of securities?—As I have been trying to explain, as you pay it out it comes in again.

2509. If you borrow in a year of famine, you do not get anything at all. In a partial famine in one year the Government had to give out 15½ millions of gold; supposing it had been not a partial famine but an extraordinary famine, there would have been nothing left?—But you can go on borrowing in the good years, and you need not wait till the famine years come round. You should begin making those irrigation canals in the good years.

2510. A 15 millions loan, even in the London market, would be a very big thing?—We do not want 15 millions. I understand that two millions, or three millions, would be enough for the railways.

2511. I am not talking of the railways. I am talking of people wanting to remit money from the other side here; that would have to be done from the Gold Standard Reserve, and that would not be sufficient to cash all the demands, if you carried out your scheme?—I have been trying to explain how it can be made sufficient. You can go on borrowing every day if you like, in the market. Do not wait till the bad year comes round, because if you do that you may be landed.

2512. Do you mean go on borrowing and keep it in the reserve at interest?—Borrow as you did for your canals in India, and go on borrowing. If you have a surplus in hand, of course you will not want to borrow, but there should be a continuous chain going round.

2513. Whatever they have borrowed they have already spent, and there is nothing left of that; say that they have borrowed and spent about 10 millions or more, do you mean that they should borrow another 12 millions in the same year, if it is a good year, and put it aside?—Whatever you put out at one end of the box comes in at the other, day by day. This year, for instance, the Government has a surplus of seven millions sterling, and they do not require to borrow a halfpenny. You get that seven millions in your surplus, and you put it into your canal.

2514. Say that the Government loses six millions or seven millions in revenue, and they have to pay in assisting the ryot besides; and say that India exports 30 millions or 40 millions less of produce than in good years; then there are tremendous losses in other ways for which the Government have to provide by borrowing. In a famine year, when we require the assistance of the Gold Standard Reserve, India loses in the shape of lessened export trade about 30 millions or 40 millions because she has not produced enough to export, and the Government have to assist the ryots to get their food; then the railways earn very little, and the Government in that year, besides having to provide for the par of exchange, are therefore at a heavy loss. That cripples them for borrowing for other purposes than to meet the immediate necessity, so you cannot bring your theory into play in that year?—I do not quite understand why. I would like to finish this particular question you have raised, as I am afraid I have rather failed to make myself clear. Supposing this is the Treasury, and money is being paid out in making an irrigation canal—

2515. You must remember that the 27 millions is already exhausted and there is nothing left?—But it is in the box just now. You pay out this money, and you dig a canal as you pay it out. It is a good year just now, and, therefore, money comes in at the other end as it goes out at this end.

2516. I do not understand it. You say these are very good years, and you have used up the 27 millions of gold by turning it into rupees and spending the balance on public works. But when we have done that, and when we have enriched ourselves with great public works, famine comes in and the reserves are already without that 27 millions sterling?—No, excuse

me; we start now to-day, when we have 27 millions in our pocket.

2517. (*Chairman.*) I think the point Sir Shapurji is trying to put is that when a bad year comes, instead of having 27 millions in your pocket you will have the 27 millions in the canal; the canal may be a most valuable work, but it does not give you money for the immediate emergency?—Yes, it does, and I just want to explain why. The box is full just now; you start digging this canal; it is a good year and you have plenty of money in your pocket; that sovereign goes into the canal, but you have a good year and then this sovereign comes into the box.

2518. (*Mr. Keynes.*) Where from?—From the surplus—the seven millions of taxation.

2519. That mounts up to the 27 millions, does it?—This year the Government has a surplus of seven millions, so you have got that seven millions to start with. You pay out one sovereign from this seven millions, and you put one sovereign in in respect of it. Now, is the reserve intact or not?

2520. (*Chairman.*) As long as you only draw out the same as you are putting in it remains intact?—Now we are coming to it. That sovereign has gone, but another one is in the box. The next year is a bad year, and you go to the money market and draw from that. You give the money market your paper, or whatever it is, and then another sovereign goes in; so you have had two sovereigns taken out and two sovereigns put in.

2521. (*Lord Faber.*) Say that you have two bad years, the money market then will button up its pocket and will not lend you anything?—Every country in the world is borrowing on the London market, so why cannot India?

2522. (*Chairman.*) The assumption on which your argument rests is that, no matter how prolonged the bad times, India can always borrow as much money as she wants?—Exactly, and she had done it up to the present day. If she had not been able to do it up to to-day she would have been bankrupt.

2523. Does not that carry you to this, that there is no necessity for a reserve at all? Why pass the sovereign into the reserve? Why make a pretence of keeping it in a box when, in fact, in the bad time you are going to rely upon borrowing to meet your needs? Why should you pass it through the reserve at all? Why should it not remain in the Treasury and go direct from the Treasury to the canal?—In that case, Government is not building the canal, and that is what I want to point out.

2524. Is there, in your view, any necessity for a reserve at all except that reserve provided by the Government's power to borrow?—Power to borrow, combined with the surpluses; that is all the Government wants.

2525. (*Sir Ernest Cable.*) Using the surplus in a good year, and borrowing in a bad year?—Yes. Does the Commission understand that the reserves remain intact? Might I finish my illustration?

(*Chairman.*) I think I understand your illustration, because you have given it us once or twice. If I rightly understand your illustration, the reserve becomes valueless.

2526-7. (*Sir Ernest Cable.*) And there is no need for the reserve?—There is no need to increase it more than is necessary. You should keep sufficient in hand always to ensure cashing your currency notes, but beyond that you can go on indefinitely building railways.

2528. (*Chairman.*) That only means that you are to have credit at your bankers equal to the amount of the cheques you draw?—Yes, and your credit is improving all the time, because you are increasing your irrigation canals. In that way you improve your credit and you can borrow cheaper in the London market than any nation in the world.

2529. (*Sir Shapurji Broacha.*) Do you mean that the Secretary of State must sell under the gold par?—He must buy all the sovereigns at 15 rupees to the £.

2530. Supposing the Secretary of State has 20 millions of surplus, as it is called, though it is really a part of the Indian revenue and is not a surplus, and he

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has to send that money back to India for the Government to expend?—It is coming back again, as I am trying to explain. The chest always remains the same as it is now.

2531. I am not talking of the chest now. Whatever the Secretary of State holds he holds from the revenue of India; he might be able to keep 10 millions here for one year, but what about the second year? Should he accumulate all the revenues of India here, or should he send it back in some shape to spend it there?—He can both save it and spend it.

2532. There are those who like to have gold and who do not calculate the exchange rate when they are importing gold into India; last year they imported 12 millions of bar gold when it was not a question of the exchange rate. There are those who would give almost anything over or under par to get gold there?—If the Government offer 1s. 4d., they will keep every sovereign here, if they wish it.

2533. They take gold there in bars, and the 12 millions I have mentioned were taken there quite independent of the Government, and quite independent of the exchange rate; how can you prevent that?—You cannot prevent it; but in that case you pay 22 rupees for your sovereign instead of 15.

2534. No, I pay 15 in India. How can you prevent me taking gold out, independent of the exchange rate?—What happens is that India has lost her produce and she cannot get any gold. The gold, to begin with, is in the hands of the exchange banks; the balance of trade is not in the hands of private individuals because the exchange banks collect that gold here.

2535. The export will be financed in the way the people want; they send exports here, and they ask for gold, and they will get it without the aid or interference of the Secretary of State?—The whole balance of the export trade is financed by the exchange banks.

2536. That is quite true, and the exchange banks help them to bring in gold bars?—We can stop it by asking less than 1s. 4½d.

2537. In India the export trade is financed in two other ways, first, by sending out gold as merchandise, and secondly, by sending out silver as merchandise, and dispensing the rupees there to pay for the export from that side?—When a man exports goods from India, what does he do? How does he get his money back—from the exchange banks, is it not?

2538. Perhaps; but the exchange banks do not take all his sovereigns?—I want to show how the circle goes round. The total export trade of India, I understand, is financed by the exchange banks. Goods are sent out of this country, the banks pay the exporters here, they get a draft, say, from the Secretary of State, and they recover the money there. That money has got to come back to England, and it comes back in this way: They pay the exporter there the sovereign they collect on the other side, and that sovereign comes back to England. In that way the exchange banks collect the whole gold balance of trade, but if the whole gold balance of trade is financed by the exchange banks, they want to get this gold balance back to India so as to send home more produce. They have two ways of getting it back. They can buy Council bills of the Secretary of State, and if he asks too much for them—if he asks 1s. 4½d. or 1s. 4¾d.—the banks will say, no, it will not pay us; we shall ship the gold out by steamer. If he asks 1s. 4½d. for his drafts, the banks will say, no, if I send my gold out to India I can get all the rupees I want at the rate of 15 to the sovereign; therefore why should I pay you 1s. 4½d.? If the Secretary of State refuses to give his rupees for 1s. 4d., that gold passes the Government and finds its way out to India, as Sir Shapurji suggests, and then that amount of produce is lost to India. But it does not pay the exchange banks to ship gold out to India if they can get a rupee for 1s. 4d., because by buying from the Government Council bills and telegraphic transfers they can get the money at once on the other side, whereas if they buy gold here and ship it out they lose three weeks' interest. In that way the Government can force the exchange banks to part with that gold by working the exchange, and when

they get the whole of the export trade into their hands in that way they simply prevent India losing her balance of trade, as she otherwise does.

2539. Are rupees hoarded now?—I cannot say.

2540. You are certain that gold is hoarded?—I am undoubtedly certain of it.

2541. Do you know that since 1900 about 150 crores of rupees have been coined?—Yes.

2542. That there are only about 17 crores visible and the other has gone into circulation; it must have done, because it could not have been hoarded?—There must have been a certain amount of sovereigns hoarded since 1835, because 300 million sovereigns have gone into India and have never come out of India. I am in India every year, and I never see a sovereign. Where are those 300 million sovereigns?

2543. If they use in circulation about 135 crores of silver coin then they are not much good for hoarding; the people would rather hoard the gold itself, would they not?—Exactly.

2544. Taking the figures given in one year for the railways, for savings banks, and the Post Office, I find there was a circulation of about three crores of sovereigns; that shows that there is a circulation of gold?—Has that gold come back to the treasuries again?

2545. You say that that circulation ought not to be very much encouraged?—I say for every sovereign in circulation India has sent away a sovereign's worth of produce and has got nothing back. That is what it means, and there is no getting away from it. If those 300 millions of sovereigns were brought to Europe to-day they would purchase 300 million sovereigns-worth of goods; that has not been done, and, therefore, India has lost those goods. There is no getting away from that.

2546. (Sir James Begbie.) You think Council bills and transfers should be sold freely for the convenience of trade?—Yes.

2547. You may remember that Council bills were started for the purpose of remitting home the home charges?—Yes.

2548. Do you approve of the sales of Council bills in excess of the amount required to pay the home charges in order to meet the convenience of trade?—Yes, I want to send every sovereign both for the home charges and above the home charges, because I believe that for every sovereign not so secured, India loses a sovereign's worth of produce.

2549. Do you understand that the money from which the home charges are paid is money raised by taxation in India?—By revenue and taxation.

2550. Are you in favour of Council bills being sold against the Treasuries in India in excess of the amount that is wanted to meet the home charges?—Yes, I would sell everything the banks like to take.

2551. Even if the taxpayer has to find the money?—I do not quite follow.

2552. How far would you go with your drawings against revenue?—To the extent of the entire balance of trade. If the Government does not secure that sovereign, the taxpayer loses it. That is what I maintain.

2553. One other question about a matter which has been mentioned already, namely, the hoarding of gold. You have alluded to an immense quantity of gold that is hoarded; is it not the case that banking deposits have greatly increased, also investments in securities of the Government and of municipal authorities and private concerns?—Yes.

2554. So there are cases where hoarding is not taking place?—Undoubtedly.

2555. (Chairman.) There is one recommendation or suggestion in your memorandum which I think none of us has asked you about, and perhaps I ought to ask a question on it. It is in paragraph 5 of supplementary note A to Appendix XVI. (page 529). You suggest there that the Government and the Secretary of State should find the average silver purchases for a period of years, good and bad, and every year coin the average or a little more. That you recommend in order to "kill" the gamble connected with the existing spasmodic

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Sir DANIEL MACKINNON HAMILTON.

[Continued.]

"method of purchase and protect Government from "being cornered"?—Yes.

2556. Has your attention been drawn to the very large variations between one year and another in the demand for rupees?—Yes. I understand that for the last four or five years the Government have not had to coin any silver until lately.

2557. We have it in evidence—I have not got the question before me, but I think my memory is right—that in one year the people of India took out eight millions sterling in additional rupees, and the next year they returned 12 millions into the Treasury owing to the bad trade, or, as the witness put it to us, there was a difference between plus 8 and minus 12; how would you strike an average with such big fluctuations as that?—We know that the silver purchases for 10 years have been 60 millions; taking good and bad years that 60 millions has been sufficient to meet the demand against currency notes presented to the Government.

2558. But the demand has not been at all regular during those 60 years?—No, it has not.

2559. Now that we know what the total demand was, if we divide it by the number of years, and the Government purchase that amount each year, might they not be left short in one of the busy years?—They will have less to purchase in that case than they have

now. Suppose they buy, say, six millions every year annually for, say, eight years: that is 48 millions they have in hand, so that if a tremendous demand springs up, they have less to buy in the silver market than they otherwise would have.

2560. If in the early years it has averaged more, then they have so much money lying idle?—That is so, but in that case they lend it as required, and utilise it in that way for financing trade.

2561. That is to say, they coin the rupees at once, whether wanted or not?—As required.

I should like to make clearer to the Commission how I prove that the one sovereign produces 16 in 14 years. I have here a lecture delivered before the Society of Arts by Sir John Benton, K.C.I.E., on Irrigation Works in India. He gave figures showing the capital outlay, and he says if we spend 20*l.* on canals, he would lend 24*l.* every year on food crops. If Government secure this sovereign, this gold balance of trade, that means that by creating a canal, in 14 years it gets back 14 millions sterling worth of produce, because for every sovereign it gets back 14 golden sovereigns plus the two sovereigns representing the capital cost and interest; so that for that one sovereign spent you get back 16 sovereigns in 14 years, and therefore, for every sovereign which escapes the Government, that is lost.

The witness withdrew.

At the India Office, Whitehall, S.W.

EIGHTH DAY.

Thursday, June 26, 1913.

PRESENT:

The RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Lord KILBRACKEN, G.C.B.
Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.

Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Mr. J. A. TOOMEY and Mr. T. FRASER called and examined.

2562. (*Chairman*.) I think, Mr. Toomey, you come here to-day with Mr. Fraser as representing the exchange banks doing business in India?—(*Mr. Toomey*.) That is so.

2563. Will you tell me the names of the banks which you represent?—The Chartered Bank of India, the Hong Kong and Shanghai Bank, the Mercantile Bank of India, the Eastern Bank, and the National Bank of India. (*Mr. Fraser*.) The foreign banks also, the Deutsche-Asiatische, the Russo-Asiatic, the Yokohama Specie Bank, the Comptoir National; in fact the only bank that did not intimate that they wished us to represent them is the Delhi and London Bank.

2564. Do you represent the International Banking Corporation?—Yes.

2565. I understand from the memorandum (*see* Appendix XVII., page 536) you have been good enough to send us that you have no criticisms to offer us to the location and management of the balances of the Government of India?—(*Mr. Toomey*.) No.

2566. And none as to the sale of Council bills and transfers?—What we say on that point is that we would deprecate any change being made in the sale of Council bills. The present system is admirably adapted to the requirements of trade, the amount put up weekly for tender being well regulated by probable requirements, while additional amounts can be obtained at a

small premium. We consider that the sale of Council bills is well handled, the system adopted being the outcome of many years' experience.

2567. In your memorandum you advocate the lending out of the surplus balances of India during the busy season, I see?—Yes, we do.

2568. And, to that extent, you criticise the present use of the balances?—There is an agitation that the Government of India should lend these surplus balances, and we see no reason why the balances should not be so lent, say, to the Presidency banks, at a somewhat lower rate than the bank rate for the time being. At the same time we do not think there would be a very large amount of money required in that way.

2569. You do not suggest, I presume, that the balances of the Government of India should be increased for that purpose?—No, certainly not.

2570. Only that when there is a surplus balance it should be used in that way?—Yes, if there are surplus balances.

2571. Do you think that the balances kept at the Treasuries in India have been higher than they need to be?—No, I think not.

2572. Up to the present, then, these surpluses of which you speak could hardly have existed? Perhaps I did not make myself quite clear; I meant, were the balances higher than it was necessary for the Govern-

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[Continued.]

ment to keep in the treasuries to meet the calls which might come upon them, and would there have been in recent times any capital which they could safely loan out?—Yes, I think they could have lent out money in India to the market.

2573. On short loans?—That is so, for two or three months, against Government paper, port trust bonds, and securities of that type. As I say, I do not think that these loans will be required to any large extent.

2574. Would you suggest Government lending for as long as three months?—Three months would carry them over the busy season.

2575. You are aware, of course, that that is longer than it has been their practice to lend on the London money market?—Yes; they lend here for four or five weeks.

2576. That is in order that they may be certain of getting it at any moment of pressure here?—I think in the case of India the money might be lent for two or three months.

2577. Suppose that that practice were adopted, and suppose that they had lent out considerable sums in India, do you think any difficulty would be caused when, on any occasion, they were unable to lend?—No, because the market has been getting on well enough without these Government loans.

2578. You do not think there is any danger of the market coming to rely upon this power to get loans from Government, and then being caught short sometimes when the Government cannot lend?—I think not, if the Government were to announce their inability to make these advances some little time before.

2579. I think you said just now that these loans should be made slightly below the bank rate?—Yes; somewhat below.

2580. Would you attach any conditions to them if so made, that is to say, any conditions as to the rates at which the money should be lent again by the banks?—No. I take it money would be lent to the Presidency banks at something like 1 per cent. under the bank rate; and that would leave the Presidency banks free to lend money at the bank rate to their customers.

2581. Would not the customers who thus indirectly get the Government money be financed on more favourable terms than those who had to rely upon the ordinary resources of the bank?—I think not, because as a general rule people can now borrow on those securities at the bank rate.

2582. From what you have said as regards the sale of Council bills and transfers, I gather that you do not think the Secretary of State is injudiciously keeping gold out of India?—No; I think quite enough gold goes to India.

2583. Do you think that he sends any more than ought to go?—No, I think not. It is only the surplus after the sale of Council bills that goes to India in the way of gold.

2584. Now going to the Gold Standard Reserve, have you any criticisms to make upon that?—Yes. We consider that the whole amount should be kept in this country in gold and gold securities, and that the latter, as far as may be practicable, should consist of short-term maturities. We further consider that a much larger proportion of the reserve should be retained in actual gold than has been the custom in the past. All profits on the coinage of rupees should be credited to the reserve, as we are strongly of opinion that the time has not yet arrived when it is safe to place a limit on the amount of the reserve. We do not approve of any portion of the reserve being held in silver.

2585. Do you suggest any figure for the amount of gold that should actually be held?—No, but we think that it ought to be a good deal larger than at present.

2586. I understand you to say you hold nothing here except either actual gold coin and bullion or short-dated securities?—We say that a larger proportion than at present should be held in actual gold, and the rest, as far as possible, in the shape of short-term securities.

2587. It has been suggested to us that the crisis of 1907–8 afforded the best test available, or a very good test, for judging of the amount of gold which is actually needed; do you share that view?—Yes, it did; but, of course it was only a partial famine or breakdown. It was a small breakdown.

2588. There was a very severe financial crisis in America and elsewhere?—Yes.

2589. But there was only a small famine in India?—Yes.

2590. You would think, therefore, that it was not safe to take that as a measure of the liabilities that might come upon you?—No, nothing like it. With a severe famine a much larger amount of gold would be taken out.

2591. I think it has been stated that the object was to get five millions of the reserve in gold; you would think that quite an insufficient sum, I gather?—Yes.

2592. But you would not like to name any figure?—I do not think we need place a limit just now.

2593. Would you wish, whatever your figure was, that it should bear some sort of proportion to the trade of India, and rise as the total trade of India rises?—I say it ought to be proportioned to the total amount of the reserve; that is, that it should bear a proportion to the amount of the reserve.

2594. Should both the reserve as a whole and the gold portion of it bear some proportion to the trade of India? Suppose we were able to fix on a figure which we thought safe under the present circumstances, would you say that as the trade of India expands it would be necessary that that figure should rise in proportion?—Yes, it should be enlarged.

2595. You object to holding any portion of the gold reserve in silver?—Yes.

2596. And I think you said you object to the holding of any portion of the gold reserve in India?—Yes, it should be held in London.

2597. It is in the Indian branch that the silver is held at the present time?—Yes.

2598. Will you tell me why you object to holding any portion of it in India, and why you object to having any portion of it in silver?—We think it best to hold the reserve in London, because this would be the market where the money would be actually required in an emergency.

2599. Your objection to holding any part of it in silver is due to what cause?—It is a Gold Standard Reserve, and we say it ought to be in gold. (Mr. Fraser.) We consider that silver could not under any possible circumstances support a gold standard in a crisis.

2600. Have you any criticisms to offer as regards the Paper Currency Reserve?—(Mr. Toomey.) We hold that a proportion should be kept in this country in gold, and so could be made immediately available for purchases of silver, or released in case of need against the deposit of rupees in India. When gold is available in India, the currency note department should, in normal times, be prepared to pay out readily sovereigns against notes or rupees.

2601. That has been the case, has it not?—Yes.

2602. Have you anything to say as to the proposal which has been made for the opening of a gold mint in India?—We say that in our opinion existing conditions in India do not call for the establishment of a mint for the free coinage of gold, seeing that the country obtains all the sovereigns it requires free of minting charges. If, however, it should at any future date be deemed advisable to open such a mint, we advocate the coinage thereof of the sovereign. Our branch managers have written something on this point, and I do not know whether I should tell you what they say.

2603. We should be very glad to hear it?—The Calcutta manager of the National Bank of India says that a gold coinage is not really wanted in India, but "if gold is to be coined here then it must be the sovereign, with which people are already more or less familiar; any other coin would, I think, merely be looked upon as a curiosity. Government's well-backed note issue is, I think, the thing to cultivate as much as possible, being the most economical

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[Continued.]

"form of currency." The Bombay manager says, "Personally, I do not think that a gold coinage will benefit India, and the clamour for it is confined to Bombay and Karachi. The present currency system is working well, and I do not think that people generally want it changed." The manager at Karachi writes, "We see no necessity for an open mint in Bombay for the coinage of sovereigns. A gold market in India for the coinage of sovereigns would make a firmer discount rate at home, which would not be to India's advantage. Sovereigns had not been tried in India when the Fowler Committee sat and recommended a mint in India for the coinage of gold."

2604. Do you yourself share the view, which I think one of the managers you quoted expressed, that the best currency is a well-backed paper note issue?—Yes, because it is a much more economical form of currency.

2605. Do you yourself think that sovereigns could be freely obtained now in India when wanted?—Yes, they can. That is proved by the large amount held by the Government of India. The people of the country know pretty well that they can get sovereigns if they require them, but they do not require them.

2606. They can get them at a few points only, I suppose?—I think that is so.

2607. Does the fact that these people do not take these sovereigns, although they could get them in the Government Treasuries, suggest to you that the sovereign is an inconvenient coin for them?—No, it is not at all inconvenient. It seems to me that the people have enough sovereigns in the country already for their present requirements.

2608. I put the question to you, because it has been represented to us that India is a country where most of the transactions are very small, and that the sovereign is too big a unit for their gold coin?—I think not. Sovereigns are taken pretty freely in certain up-country districts. The trouble which the National Bank of India sometimes has is not being able to get rupees for sovereigns. If I may follow that out for a moment, at Delhi the manager wrote the other day saying that he could have done some sterling business only his cash balance consisted mostly of sovereigns, and his customers who proposed this sterling business wanted payment in rupees, not sovereigns. Our manager asked the Comptroller-General for silver in exchange for those sovereigns, but he was not able to get it.

2609. Why was that?—I suppose the Comptroller-General had not got a sufficient supply of silver.

2610. But no reason was given or at least communicated to you?—That is so. (Mr. Fraser.) I might remark that we have had a similar experience at Delhi and Amritsar.

2611. Is it a frequent experience at those two places?—Our transactions at those points are not very large, but we have had that experience that we have had sovereigns for which it has been difficult to obtain rupees.

2612. At those two points only?—Those are the only two points up-country in which we are represented. (Mr. Toomey.) It would apply to up-country stations more or less. It does not apply to the Presidency towns.

2613. Some time ago the Indian Government was pressing on the Secretary of State the establishment of a mint, but abandoned the proposal on finding that the Indian mines had made contracts for the sale of their gold to Europe; do you know whether that state of things still prevails?—I have no information on that point. I cannot tell whether with an open mint the local production would go to the Bombay mint or not.

2614. I think in the last financial statement of Sir Guy Fleetwood Wilson, he stated as one of the arguments for the opening of a gold mint that there was a great deal of gold bullion in India which people might at a given time want to coin; and he suggested that it was not economical and it was not right that they should have to send that bullion all the way from India to England to get it coined, and then re-import it. What do you say to that?—If you have an open

mint in Bombay I do not see any likelihood of that gold bullion being sent in to the mint.

2615. You do not think it would come out of the hoards?—No. India is steadily taking gold in the form of bars, and that is likely to continue. The people would not part with their gold except under the direst necessity.

2616. Do you think they are now hoarding gold in large amounts?—They always have done so, and the hoarding is probably on the increase, owing to the people being more prosperous.

2617. Would it be the case that the making of the rupee a token as a consequence of closing the mints, causes the people to hoard gold now, where previously they might have hoarded silver?—All I can say is that they are taking gold more freely than they did before; but still the rupee is the coin of the country.

2618. The result in any case is that a great deal of gold has gone into India and remains there either in the form of bullion or of sovereigns?—Practically it always remains there.

2619. Is that gold of much use in maintaining exchange in a crisis, in your opinion?—Not the gold held in hoards.

2620. Does the gold that has gone into circulation come out for the purpose of maintaining exchange, or does it maintain exchange in a crisis?—I think in a crisis the people would retain their gold and probably scramble for more.

2621. I will turn now, if I may, to the question of the enlargement of the powers of the Presidency banks; I think you object to that proposal?—Yes. The question of the enlargement of the powers of the Presidency banks so as to permit them to deal in sterling exchange, is one which has been brought forward from time to time during the last 50 years and has been steadily vetoed by the Government of India and successive Secretaries of State. The last time that this question was raised was in 1904, when it was proposed (1) that the Presidency banks should be allowed, when the bank rate in India is 6 per cent. or higher, to borrow in London for the purpose of remitting funds to India; and (2) that the banks should be permitted to deal in foreign bills so far as is necessary to enable them to remit the money borrowed to or from India. The Government of India, with the approval of the Secretary of State, declined to grant the powers sought by the Presidency banks, and the reasons for this decision were fully explained by the then Finance Minister, in his speech reported in the "Gazette of India" of 16th February 1907, of which we have sent you a copy.* The exchange banks at that time felt it incumbent on them to oppose strongly the proposals of the Presidency banks, and we should do so again on the same grounds, namely, that while we do not deprecate ordinary competition by competitors on the same level as ourselves, we strongly object to State-aided competition. The Presidency banks enjoy the prestige of being the Government bankers with immense sums of public money free of charge, whilst we are handicapped by having to pay interest on the whole of our deposits. The exchange banks have financed the external trade of India for over 50 years without any charge of inefficiency or unreasonable charges, and with the large resources at their command they are fully competent to deal with all the exchange business of the country. We maintain that the legitimate function of the Presidency banks is to finance the internal trade of the country, for which they enjoy special privileges in having large amounts of money without charge. If, however, these banks require further funds for their business it is open to them to raise additional capital in the same way as many of the exchange banks have done. It is contended in some quarters that the Government of India should lend some of its surplus balances for the benefit of trade during the busy seasons, and we see no reason why this should not be done in the same way as the Secretary of State lends money in this city on first-class securities. Our view is that the money should be lent to the Presidency banks for

* See Appendix XVII., page 538.

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[Continued.]

short periods on Government paper, Port Trust bonds, and the like, the money being lent at somewhat less than the ruling bank rate. We attach the same objections as those we have just enumerated to the establishment of a State bank. Banking in India is already well represented in all its branches by the Presidency banks, exchange banks, and the numerous local banks. No State bank would, in our opinion, cater for the requirements of the many millions of cultivators who are at present dependent for finance on moneylenders. Their needs could best be supplied by encouraging and developing the system of co-operative credit which under the sympathetic support of the Government has made great progress during the last few years. The Presidency banks fulfil the functions of a State bank in their respective spheres; they have their capital and resources available for the benefit of their own particular province, and to absorb these into a central institution would, in our view, militate against efficiency. The Presidency banks as they exist are in reality three "State banks," and with their head offices in Calcutta, Bombay, and Madras are better equipped for studying the wants of their respective provinces than one central bank could possibly be; and we are unable to see how such a bank could foster the development of trade as well as it is being done by the existing machinery. Further, a State bank with the control of Government money, the paper currency, and access to the London market, would virtually mean the establishment, so far as exchange is concerned, of a banking monopoly, which we feel is neither desirable nor advisable in the best interests of India and its trade. We consider that the existing currency department, with the assistance of hundreds of Government treasuries and sub-treasuries penetrating into remote districts to which it would not pay a bank to go, is much better fitted to manage and develop the paper currency than a State bank would be. The remarkable growth of the currency note issue, particularly in recent years, testifies in some measure to the efficiency of the existing system, and it is scarcely likely that a State bank could foster the extension of the note issue so well as these Government treasuries. I should like to add this note: To my mind the mere amalgamation of the Presidency banks with a central authority would present insuperable difficulties. No doubt the idea in such a scheme would be the retention of the present boards, but these would only have the shadow not the substance of power, and the central authority could not accurately gauge and satisfy the requirements of trade in all quarters nearly so well as under the existing system, and I apprehend that unfavourable comparisons and complaints would follow as to certain interests being favoured at the expense of others. When the idea of a State bank was mooted in 1899 the secretary and treasurer of one of the Presidency banks wrote to Government as follows: "My directors regret that they are unable to concur in the opinion expressed by His Excellency the Viceroy that a consolidation and a concentration of banking facilities are required in the interests of the business accommodation and credit of the country. So far as they are aware, there is no demand in India on the part of the mercantile and trading community for such concentration. If the banking facilities in the country were found to be inadequate, an increase in banking capital would be necessary and would speedily be called for, but a mere amalgamation of the existing banks would not provide an increase of capital or of banking facilities. It would rather tend to curtail credit in many cases." The Bengal Government wrote to the Government of India in March 1900 as follows: "In the first place, it is doubtful whether India is not too large for a single central State bank; the directors, if drawn from or located in the three Presidency towns, would be too far apart from each other. Secondly, the interests of the various Presidencies are not always identical, and are sometimes at variance with each other. Thirdly, it is against the public interest to create and foster a huge monopoly. A single bank with large resources and commanding the Govern-

ment deposits would have great power over the other banks. Fourthly, banks deal chiefly in credit, and credit is always a matter of local knowledge and experience." The Government of India wrote to the Secretary of State in June 1901, in reply to certain inquiries: "(Question V.) Is it likely that the possible conflict of interests between a bank of this description and other existing institutions might tend to discourage private enterprise, and to prevent the development of the facilities which the public now enjoys?" The answer was: "We think it is evident that if a central bank were obliged to hold more capital than it could profitably employ throughout the year in ordinary business, such a bank would be obliged to enter into prejudicial competition with private banks; and further, the existence of such surplus capital in India might check the outward flow of capital from private sources when occasion presented itself for its profitable employment." If these were the views 12 or 14 years ago, they have stronger force in the present day when the demands of trade and the volume of business are so much larger. When, however, it is suggested to establish a State bank, not only absorbing the three Presidency banks, but also to hand over to it the management of the currency of the country, the scheme becomes one of too vast a character, in my opinion, to be in any way practicable. The management of the currency in such a country as India is very properly in the hands of a large Government department having the control of hundreds of treasuries and sub-treasuries scattered throughout the Empire. It has taken many years to build up this department into its present state, and to expect a newly-made bank to take over the work where the Government leaves off would only invite difficulty and trouble. No State bank, however ably managed and however anxious its officials might be to meet requirements could, in addition to its primary work of attending to the wants of trade throughout the Empire, perform such a work satisfactorily, and there might be a state of chaos, resulting possibly in a run on banks in the not improbable event of a supply of currency running short in various quarters. In this respect I refer not so much to Presidency towns as to places in the interior. When it is also suggested that a State bank should, on the top of all these responsibilities, open an office in London and transact exchange business with India, the proposal is vaster than the ordinary banking mind can conceive as being in any way feasible. The trouble would be to find the genius who could carry the scheme into effect. The Presidency banks have enough to do already in attending to the wants of their respective spheres. The exchange banks have been financing the foreign trade of the country, in some cases for 50 years and more, and no complaints are heard as to any inefficiency or shortcomings on their part. They fill a most important place in the conduct of India's trade, and their record entitles them to every consideration on the part of the Government when dealing with any contemplated changes. The exchange banks do not fear competition by competitors on their own level, but it is easy to see that they could not compete successfully against a State bank with immense sums of public money at its disposal free of charge. Such an institution would have a most unfair advantage over the existing banks. It would create a monopoly in exchange banking, and by its being able to work on terms which the present banks could not touch, have the power to cripple them without having the power to take their place. It would be a distinct disadvantage to merchants in all parts of India that such a monopoly should be created, and that any weakening of the exchange banks should result. (Mr. Fraser.) Might I remark that that is a personal note by Mr. Toomey which I have read and endorse.

2622. With which you agree?—Yes, with which I agree.

2623. Your primary objection to the extension of the powers either of the Presidency banks amalgamated or of a new State bank is that it subsidises competition?—(Mr. Toomey.) That is so; and we consider it would be unworkable,

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[Continued.]

2624. You think further that it would be unworkable?—The country is geographically too large.

2625. I understand that observation, from the point of view of meeting the wants of clients and of meeting all the local conditions in so vast an area?—You must have an intimate knowledge of your customers and of trade generally.

2626. That applies to banking facilities for internal use?—If a State bank were to open in London it would necessitate intimate knowledge of the London market too.

2627. In other respects, would the work which the State bank would have to do be vaster than that which has now to be done by the Government of India and the Secretary of State?—Do you refer to the sale of Council bills and the rest of it?

2628. At the present time the Government of India have to make up their minds what currency the country requires?—All that is a very small matter compared with the work which a State bank would have to do.

2629. The management of the currency would not in itself become heavier because it was transferred to a State bank, would it?—No, it would be the same, unless, of course, there was an extension of the currency note issue.

2630. I am rather interested to find a gentleman coming from the business world who really feels that Government can do some things better than a great business concern?—We say that the currency department is exceedingly well managed, that it has taken a long time to work it up to its present position, and that no bank could work it as well. It would take a bank many years to get into the present position that the Government are in as regards that.

2631. I think, from what Mr. Fraser said just now, that every now and then the currency department fails either to provide sufficient currency or to provide it in the place where it is wanted?—(Mr. Fraser.) Yes. (Mr. Toomey.) To some extent, but we are not making any grievance of that just now.

2632. At the present time who really manages Indian exchange?—The exchange banks.

2633. Not the Secretary of State?—No, he only supplies our requirements for outward remittances.

2634. But he fixes the rate of course?—You cannot say that he fixes the rates for Council bills. He accepts the market rate between $1s. 3\frac{3}{4}d.$ and $1s. 4\frac{1}{4}d.$

2635. Do you say his influence is confined to keeping it within those limits?—Yes.

2636. (Mr. Keynes.) He varies the amount of bills he offers; has that no influence on the rate?—Do you mean the weekly amount?

2637. Yes?—Just now he is offering 20 lakhs a week.

2638. (Sir Robert Chalmers.) Suppose he offers 100?—Just now there would be no takers.

2639. (Chairman.) But would that not affect the rates?—Of course he cannot sell below $1s. 3\frac{3}{4}d.$

2640. (Mr. Keynes.) At the present moment exchange is very low, but suppose early in the year when it was $1s. 4\frac{1}{4}d.$ he had put up from 100 lakhs to 150 lakhs, would not that have affected the rate at that time?—The rate certainly would have been affected temporarily, unless there was a great extension of exports just at that particular time.

2641. So that the rate partly depends upon the policy he is pursuing with regard to the amount he offers week by week?—Yes; but he has a rule offers the amount which the market is likely to take.

2642. Subject to what the Secretary of State thinks the suitable rate for the time of the year?—He sells them at the market rate.

2643. (Chairman.) Does not the demand at any given time depend in part on what the rate is? If the rate is low the demand would be greater than if the rate is high, would it not?—No, that is not so. At this time of the year export business is dull, and consequently exchange falls. For instance, last Wednesday there were only 20 lakhs put up, and the market did not want much, the rate was $1s. 3\frac{1}{2}d.$, and there were very few takers, because India is well supplied with cash at the moment and there is no demand.

2644. (Lord Faber.) And India is not exporting at the moment?—Exports are not very active just now. We always see the highest rates of exchange in the busy season, naturally, that is, from January to April.

2645. (Mr. Keynes.) If the Secretary of State had issued no bills last week and no bills this week, and said he was not going to sell bills for the next two months below $1s. 4d.$, would that affect exchange?—It might or it might not. It depends on the demand for remittance from India.

2646. It might possibly affect exchange though?—Possibly, but India could really get along without Council bills for a month or two, could she not? (Mr. Fraser.) I think so. I think if the Secretary of State were to fix the rate at $1s. 4d.$ just now, and say he would not sell below $1s. 4d.$, the people who wanted to remit money to India would simply wait till the last moment, and if they could not get anything better than $1s. 4d.$ they would take his $1s. 4d.$, but they would not go to him except as a last resort. (Mr. Toomey.) He could not very well establish $1s. 4d.$ as the minimum.

2647. If he were to announce that policy, would the rate which the exchange banks charge to their customers be altered?—(Mr. Fraser.) We would sell in India below $1s. 4d.$ as long as we could, and when we found we could not sell any more then we would come for his $1s. 4d.$ (Mr. Toomey.) It does not follow that because the Secretary of State would not sell below $1s. 4d.$ exchange would be maintained at $1s. 4d.$ for a month or two.

2648. (Chairman.) I want to draw your attention, with reference to something you have said, to an expression of the views of the Government of India. I have before me a letter from the Government of India to the Secretary of State, No. 56, dated 22nd February 1900.* He was then being sent by the Government of India a memorial from the exchange banks on this very question, and in that memorial, as quoted in paragraph 3 of the letter, it is stated by the exchange banks very much what you have said to-day, that "for the last 40 years they have 'practically' financed the whole export and import trade of the 'country,' while the Presidency banks have devoted 'themselves entirely to financing the internal commerce.'" I desire to call your attention to the comments on that of the Government of India. They say, "We cannot for a moment admit the correctness of this assertion. Though the Presidency banks 'have hitherto been prohibited from engaging in 'exchange operations their resources (and through 'them the resources of the Government also) have 'been freely placed at the disposal of all sections of 'the commercial community, including the exchange 'banks themselves who now imply that they have 'financed the whole foreign trade with their own 'capital exclusively.'" Then they proceed to say, "On this point we may let the memorialists speak for themselves. In December last the associated 'exchange banks deputed two representatives (who 'are among the signatories of this memorial) to meet 'our honourable colleague in charge of the Finance 'Department and to urge upon the Government that 'any loans made by the Government should be made 'equally to the exchange and to the Presidency banks. 'When it was intimated that the Government would 'be unlikely to depart from their past practice of 'giving all loans through the Presidency banks, the 'deputation asked that the Presidency banks should 'not be permitted to pass on the Government money 'except to the exchange banks, or at any rate that 'the exchange banks should have the first call on it 'to the exclusion of local banks and merchants, 'European and native. A few weeks later the 'Government were suddenly and urgently pressed 'by the managers of two of the exchange banks to 'advance Rs. 30 lakhs to the Bank of Bombay"—this was written in 1900. "It was represented that unless 'the money was forthcoming, there was danger of a 'serious commercial crisis, and of an important 'failure. The exchange banks, it was explained,

* See Appendix XV., page 407.

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" would not provide money for their customers, though money could be obtained in a few hours under Act II. of 1898, because they objected to buying telegraphic transfers at the rate at which your Lordship was then selling. Sooner than have recourse to this means of obtaining funds they frankly preferred to let the crisis come. Happily the crisis was averted, mainly, we believe, by the action of one of the Presidency banks." You observe that in that paragraph the Government of India challenges *ab initio* your claim that the exchange banks have successfully and completely financed the external trade of India?—No other body of people have financed the foreign trade of India. Might I look at the first point?

2649. Certainly (*handing letter to Mr. Toomey*)?—(*After reading.*) Neither my friend nor I knew anything at all about this. The paragraph says, "the associated exchange banks deputed two representatives (who are among the signatories of this memorial) to meet our honourable colleague in charge of the Finance Department, and to urge upon the Government that any loans made by the Government should be made equally to the exchange and to the Presidency banks." We knew nothing about that in London and we should not uphold it.

2650. Sir Shapurji suggests to me that the London offices did repudiate that?—I knew nothing about it. (*Mr. Fraser.*) I was on leave at the time, and I knew nothing about it.

2651. (*Mr. Gladstone.*) You were in India in 1900, were you not?—Not at that time; I did not go out till May 1900. (*Mr. Toomey.*) I was not in India then. We certainly knew nothing about it, and we certainly would not endorse it.

2652. (*Chairman.*) Now look at the last sentence of the paragraph, "The exchange banks, it was explained, would not provide money for their customers, though money could be obtained in a few hours under Act II. of 1898, because they objected to buying telegraphic transfers at the rate at which your Lordship was then selling"?—Before that it says, "When it was intimated that the Government would be unlikely to depart from their past practice of giving loans through the Presidency banks, the deputation asked that the Presidency banks should not be permitted to pass on the Government money except to the exchange banks, or at any rate that the exchange banks should have the first call on it." We know nothing about that, and we do not endorse it.

2653. Will you just look again at the last sentence?—I cannot imagine what the deputation consisted of. Certainly, the whole thing would have been repudiated by the London offices of the banks: do you not think so? (*Mr. Fraser.*) Yes.

2654. I pass away from that. Are the exchange banks widely represented throughout India?—(*Mr. Toomey.*) They are fairly well represented. We have a good many branches up-country.

2655. In those branches you are competing with the Presidency banks, are you not?—We have some branches where the Presidency banks are not represented.

2656. But in many cases you would be in competition with the Presidency banks?—To some extent. (*Mr. Fraser.*) As far as the Chartered Bank is concerned, we are only represented in two up-country branches. Our main object in going to Delhi and Amritsar, the only two points at which we are represented, was to foster our Manchester connection, which is part of our exchange business, and our sales of bar gold, which also we consider part of our exchange business. Both Delhi and Amritsar are good markets for gold. (*Mr. Toomey.*) That is practically what we are there for too—financing Manchester business chiefly.

2657. Then you do not consider that you seriously compete with the Presidency banks for the internal business?—No. (*Mr. Fraser.*) As far as the Chartered Bank is concerned, we do not compete.

2658. I was asking you to speak generally if you could?—(*Mr. Toomey.*) Neither of us compete.

2659. (*Sir James Begbie.*) When you say the present system of selling Council drafts is admirably adapted

to the requirements of trade, you refer, I presume, to foreign trade?—Yes, to Indian foreign trade.

2660. Would you agree that the export trade forms part of the internal trade before the merchandise which is exported passes into the hands of the exporters?—It is internal trade until it becomes export trade.

2661. And the other way about in the case of imports—the merchandise imported becomes part of the internal trade after it is taken over from the importers?—It becomes internal trade then.

2662. So that the internal trade includes the foreign trade?—They are interwoven.

2663. Is it not included?—They are interwoven with one another.

2664. You expressed satisfaction generally with the system of Council bills sales, I think?—Quite so.

2665. But that was from the point of view of buyers of bills?—We always have to pay full rates for them.

2666. When you expressed this satisfaction it was not from the Government point of view, but it was from the point of view of trade and your own trade?—We do not see any system that could be worked better. We say that the system is admirably adapted to the requirements of trade, that the sales of bills are well handled and in fact that they could not be better sold. We always have to pay the full price for Council bills. They are put up for competition every week and naturally they fetch the highest prices.

2667. It does not matter to the buyers of bills whether the sales of bills are made against the Treasury balances in India, or against the Gold Standard Reserve, or against silver purchases, does it?—It does not matter really to us what accounts are debited with the amounts of these Council bills.

2668. You hold, I understand, that a proportion of the gold belonging to the Paper Currency Reserve should be kept in England?—Yes.

2669. Have you formed any opinion as to the extent of the proportion that should be held here?—No, we would not like to place any limit on it.

2670. Do you consider that there is any danger of the withdrawal of a portion of the reserves to England affecting the credit of the note issue in India?—Do you mean a further withdrawal from India?

2671. No; any withdrawal of the gold reserves from the paper currency department?—No; we think that a certain amount should be held here, and then, in the event of an adverse season, the money here would be available to meet the drafts issued by the Government of India.

2672. The reserve is intended for the redemption of the note issue, is it not?—In an adverse season the notes would be paid in to the Government of India, and they would pay out gold here against the notes tendered in India.

2673. What I wanted to know was whether you think there is any danger of the credit of the note issue being affected by the fact that a part of the reserves was held here?—I do not think so. (*Mr. Fraser.*) It might be so if the amount held here was excessive. Care would have to be taken to see that the amount of gold held here was never unduly out of proportion to the total note circulation.

2674. But you would not say what proportion?—I would hardly care to say at present. I should think think the amount held at present is not too much—it is something like nine crores, I think.

2675. Then you say that when gold is available in India the currency note department should in normal times be prepared to pay out sovereigns readily against notes?—(*Mr. Toomey.*) Yes, but there should not be any obligation.

2676. I am not quite sure what you wish us to understand by the expression "in normal times"?—I think if the Government can afford to give us sovereigns against notes they should do so, but should not accept any obligation to give sovereigns in exchange for silver or notes. In adverse times, of course, the gold would be required for the support of exchange, and the Government might then see the necessity of withdrawing the issue of gold to the people in the country.

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2677. Take the present time for example; would you say that gold should be issued at the present time with exchange below par?—Yes, I see no reason why gold should not be given in exchange for notes or rupees. The Government are well able to do so, having a very large amount of gold at their disposal.

2678. With regard to the remarks you made about the Presidency banks, you told us that the Government of India with the approval of the Secretary of State declined to grant the power sought by the Presidency banks. I do not know whether that puts the correct interpretation on the fact. Is it not the case that the Government of India proposed that the power sought by the Presidency banks should be given and the Secretary of State vetoed it?—I accept that.

2679. With regard to what you say about a State bank, it is a little difficult to discuss the matter, because we have got before us no definite proposals for a State bank if there is to be one; but is it necessary to assume that it would be a banking monopoly?—I do not see that it could be otherwise. The State bank would have the advantage of all the Government money at their disposal; they would pay nothing for that money, and so we would be very considerably handicapped.

2680. You say it would virtually mean the establishment so far as the exchange banks are concerned of a banking monopoly?—That is, if they got exchange business, they would drive us off the field entirely.

2681. If they did exchange bank business freely without any restriction?—Or at all.

2682. Supposing the State bank was authorised to remit the amount required to meet the home charges only?—Do you mean that instead of selling Council bills here they should buy bills in India?

2683. Yes?—What bills would they buy?

2684. Bills on London?—What bills?

2685. Merchants' bills, I suppose?—Then they would drive us off the field.

2686. Would they, if they were restricted in amount?—If they bought any sterling bills at all they would be able to quote lower rates than we could.

2687. But only to that extent?—It would ruin the exchange business so far as we are concerned.

2688. You say you think a State bank would not foster the extension of the note issue so well as the Government treasuries; is it not the case that banks are usually understood to be able to foster a note issue better than any Government department?—I should not think that would be the case in India. I do not think the State bank could handle the note issue at all.

2689. If you gave a State bank an interest in the extension of the note issue, would they not be likely to foster it then?—I do not think they would be capable of managing the paper currency department. It would take the State bank years and years to get into the position that the currency department are in now. As I have said, there would probably be a breakdown in the currency arrangements which might be very serious indeed.

2690. (Sir Shapurji Broacha.) You have both been managers for a very long time in India, I think?—I have been a bank manager for over 30 years.

2691. And so has Mr. Fraser?—(Mr. Fraser.) 17 years.

2692. You have passed most of your time in India in one Presidency or the other?—(Mr. Toomey.) I have. (Mr. Fraser.) I have been in Bombay and Calcutta.

2693. And you are in daily connection now with India through your branches?—(Mr. Toomey.) Yes. We are constantly getting telegrams home and sending them out.

2694. I suppose you get three or four telegrams a day and very long ones too, of the state of the market and so on?—Yes. We are thoroughly acquainted with every move in India in exchanges.

2695. So that, so far as practice and length of experience are concerned, you can give an opinion on Indian finance which will be as good as, if not better than, most people's?—I suppose our opinion is as good as the opinion of other people.

2696. And, of course, the opinion you give will be with a view to enhance the prosperity of India?—We are desirous that the prosperity of India should increase. (Mr. Fraser.) What we feel is that our interests are intimately bound up with the prosperity of India. If India is prosperous, the banks are prosperous, naturally.

2697. I think you export a good deal of gold as merchandise?—(Mr. Toomey.) Yes, we are regular shippers of bar gold to India.

2698. Amounting, would you say, to half-a-million or three-quarters of a million a month—I am speaking of the whole of the exchange banks among themselves?—I will give you the figures. Last year, 1912, the shipment of bar gold and other uncoined gold amounted to 9,466,000L., in 1911 it amounted to 8,943,000L., and in 1910 the figure was 9,360,000L.

2699. Supposing there were a mint, that gold would not go into the mint, would it?—No.

2700. Do you know of any gold exported from a foreign country which would go into the mint?—No.

2701. You would not send gold on your own account to be minted there?—No.

2702. The sovereign would be the cheapest form of gold you could send?—Yes.

2703. Therefore, I suppose, you would say that it would be a waste of money to open a mint for gold in Bombay?—Yes, we say that India can get sovereigns now cheaper than if she had a mint. She gets the sovereigns laid down in India free of cost; that is to say, she only pays 1s. 4d. for them, whereas we, the banks and other people, pay the freight and charges.

2704. Bar gold goes to India at about 1½ per cent. above the sovereign, taking the sovereign at 15 rupees, because it has to pay the bank's profit and the other charges for exchange purposes?—Yes.

2705. Again, that gold is divided into several chops, and some bank's chops fetch a higher price, as much as a sixteenth higher than others?—Slightly higher at any rate.

2706. Is it your experience that India has sold gold and exported gold sometimes in famine years?—It has done that, but very seldom. (Mr. Fraser.) In Bombay, as I think you know, Sir Shapurji, as well as I do, in the famine of 1894 and 1895 when exchange fell very low, India sold rather a large amount of gold which came out of hoards. Whether that was due to famine conditions or to the very low value of the rupee I have never quite made up my mind, but the exchange banks did at that time export large quantities of gold from India.

2707. To England?—Yes.

2708. That came out through the necessities of the people, and partly perhaps because gold had gone up to something like 12 or 15 per cent. corresponding to the fall of silver?—That is so; it was probably a combination of those two causes.

2709. Would you say, therefore, that famine times are the only times when Indian gold would go into the mint?—(Mr. Toomey.) Yes, that is the only time. (Mr. Fraser.) Under existing conditions any shroff in Bombay, who holds a lot of gold ornaments which he may have collected in various up-country centres, can take those ornaments to the mint and they will melt them and give him the gold in the shape of a gold bar, which he can take away and immediately sell to any exchange bank. Therefore, the mint to that extent is open to gold at the present moment.

2710. When the Secretary of State sells at 1s. 3½d. that is not breaking the par of exchange, is it?—(Mr. Toomey.) No, that is keeping the par.

2711. Supposing there were 30 millions in the Gold Standard Reserve, how much of that would you like to keep in liquid gold?—We would not like to name a figure. There ought to be a fair proportion of that in liquid gold.

2712. What would you call a fair proportion—two-thirds?—If you must have a figure, I should say certainly 10 millions. (Mr. Fraser.) I prefer 15 millions myself.

2713. In the crisis of 1907–8, when I called on you to ask your views, do you remember that at that time you asked me to bring to the notice of the Secretary of State that he should guarantee exchange

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at 1s. 4d., as, under pressure, you were then bringing all available funds from India to here?—It is hardly correct to say we were bringing all available funds. What happened was that merchants used to remit and we could not get exports to balance, therefore not being philanthropists we had to fall back upon somebody.

2714. The point is that you would not have got so much funds as you actually got if you had not that guarantee?—We would not have been asked for that same amount.

2715. Your idea was, let us get the funds over here, and we can meet the loss of $\frac{1}{4}$ th afterwards—I take it that that is what was in your mind at that time?—(Mr. Toomey.) There was a certain hesitation on the part of the Government in giving us drafts on London and that forced exchange below 1s. 3 $\frac{1}{2}$ d.

2716. That brought about the panicky feeling. Why should you not have, for instance, all the Gold Standard Reserve in liquid gold?—It would be too expensive.

2717. Do you calculate always the expense of a thing when there is a necessity for it?—I think we must always calculate the expense.

2718. Will not 30 millions or 40 millions of liquid gold give an actual security when short-dated securities would not?—We say it would be a waste of interest.

2719. Is that your only argument?—It would be an absolute waste of interest.

2720. Are you not wasting much more money in other directions which you could do without if you got this absolute security?—It would be throwing money away to keep it all in gold.

2721. If we had the same Army and Navy that we had before the Boer War, or at the time of the Boer War, we might have paid off the National Debt by now?—We might not be here at all.

2722. But the nation did not consider interest in that matter; it wanted absolute security?—It would be an absolute waste of good money to keep all that in liquid gold.

2723. Do you think in a time when war, panic and crisis all come jointly, the 20 millions of short-dated securities which you hold would give much confidence? Would there not be the fear that they might be cashed, and that instead of giving cash to the market you would take away some cash from the market?—We can hardly prepare for every eventuality that may possibly occur.

2724. Supposing the taxpayers do not want interest, what would you say to that? Would it be philanthropy, or that they had no sense, or what?—I do not think India should throw away that money.

2725. I will put it in another way; we know that there is very little gold against the vast commerce of this country—in fact, the two are not commensurate?—That is so; the fact is there is not enough gold to go round.

2726. Other countries are losing interest—France, Russia, and the United States are losing interest. Have they less sense than our bankers and our Government about the security or the safety that gold gives?—No. No doubt they have got immense hoards of gold, but it is doubtful whether it is necessary for India to keep all her gold actually liquid.

2727. Do you admit that India has more power to absorb gold than most commercial countries?—Her capacity for absorbing gold is very remarkable.

2728. Is not India's interest combined with the interest of this country?—Certainly.

2729. Supposing India is allowed to collect gold in the Gold Standard Reserve, would there not be a further security to the Empire in a time of crisis?—I am not disputing the fact that it would be better to have the whole of the Gold Standard Reserve in actual gold, but at the same time I do not advocate that because, as I say, there would be a loss of interest.

2730. That is the only way you take it?—That is the only way I take it.

2731. Of course liquid gold would be better?—It is naturally better.

2732. The Bank of Germany has been taking away all the gold that comes from South Africa, and they

have taken away about three millions in the last four weeks; why should not India, if she is willing to pay for it and do without this interest for her own safety?—If she wants to do it, let her do it; I do not want to interfere with her.

2733. Do you not think that about two millions more in cash in the Bank of England now would give a little fillip to the rates of interest in the market?—Do you mean two millions of money belonging to India?

2734. No; but suppose the Bank of England had two or three millions more gold from South Africa?—Certainly that would be a relief and an assistance to this market.

2735. Money is getting dearer every day, and there is a great cry for it, is there not? Are you not afraid of that?—It is much better to have stronger banking reserves in London, I admit.

2736. If England were engaged in a war, would it be a greater help to you if the Government of India had 20 millions in securities than if the Government of India had 20 millions in liquid gold? Would you not rather start with the liquid gold, so that the Secretary of State would be free from the necessity of letting the exchange go as it liked?—I can only say it would be a very fine thing if India could keep all that Gold Standard Reserve in gold.

2737. Would it not be better than securities?—(Mr. Fraser.) One might almost say that to some extent you would be penalising India for the benefit of the Empire. Of course, if India wishes that, let her do it.

2738. India has petitioned; India has said to the Secretary of State in Council by those through whom she can speak that the people of India want gold?—(Mr. Toomey.) That they want the whole of the Gold Standard Reserve to be in actual gold? That is not the widespread voice of India, surely?

2739. Do you not know that the Indian Government asked for a very large sum in liquid gold after their experience of the crisis?—All the same, I do not think there is any widespread wish to keep the whole of the Gold Standard Reserve in actual gold. If there is that desire we should raise no objection to it, if India can afford to throw away the interest.

2740. There was about 20 millions that the Secretary of State lent in this country, you said just now; could he have lent that money in India?—Nothing like it.

2741. Then of course if it had been sent to India it would have been lying waste there, and it would have created an actual monetary difficulty in the market here, because the withdrawing of 20 millions is not a small affair?—What would they have done with the 20 millions in India?

2742. Nothing, I suppose?—Except lock it up.

2743. It would have been locked up and wasted for the time being; whereas it would not only have earned interest over here, but it would have kept the money market here comparatively easy?—Yes.

2744. Is it not the case that all the world likes to keep this market as easy as they possibly can afford to do, because their interests are very much dependent on the bank rate of interest and the London money market rate of interest?—Yes, I follow that.

2745. Suppose the London money market is easy, is it not the fact that there would be more buyers of produce in other countries owing to the cheapness of money, and would not India be benefited to that extent?—Indian trade will not increase merely because the Bank of England rate is rather lower.

2746. If the money market is cheap, and if the bank rate is lower, is it not the case that there are more buyers of luxuries and more buyers of produce from India than when the bank rate, say, is 7 per cent., when there is a difficulty to discount your bills, and when there would be a direct loss to India because she could not sell her produce at better rates?—With a high Bank of England rate the merchant in India has to make various calculations as to the rate at which bills can be discounted, and so forth, which may reduce the price slightly of local produce; but beyond that there would be no contraction of trade.

2747. Would there not follow a contraction of trade if the money is kept here and if the money here

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is dear? You would not be very prodigal of sending money to India then, and that would create an export difficulty to a certain extent, would it not?—The trade of India, whatever it is, must go on whether the Bank rate is low or whether the Bank rate is high.

2748. That is right; I agree that it must go on. But take wheat, for instance; if it is only worth four rupees, do you think the same export would continue as when wheat was worth five rupees; do you think it would be bought to the same extent when it can only be financed with very great difficulty as it would when it could be easily financed?—I cannot conceive of any great difference.

2749. It is no benefit, is it, to make an artificial stringency here by taking away money to India which is of no use there?—Certainly it is no use taking money away from us and putting it down at Bombay where it is not wanted. The lower the bank rate here the better it is for the Indian merchant, because then he is able to sell his bills at a better rate than he would otherwise.

2750. You said just now that the export and import trade is interwoven, therefore you know how the Government of India can give facilities by lending money during the export season as they do here?—Yes. There is no reason why the Government should not lend its surplus balances in India.

2751. In a time when there is more money here and less in India, and therefore in a time when the Government of India could not lend for the benefit of India, do you think the Secretary of State might transfer some funds there?—There is no reason why he should not, if the Government happens to be hard up in India. At the same time there is a very limited field for lending money in India. (*Mr. Fraser.*) Outside the Presidency banks there could be no large borrowers with the security that would be required by the Government of India.

2752. Would the proper course be to lend through the Presidency banks?—We would concur in that view.

2753. At a lower rate of interest?—They must make a profit for the risk.

2754. That interest should be automatically lower than the bank rate as long as the money is used through the Presidency banks?—(*Mr. Toomey.*) Quite so.

2755. Does it make any difference to India if we keep a portion of the gold here and a portion of the gold there?—No, I think not.

2756. There is sufficient there in case of necessity?—Quite so.

2757. Would you say that the safest place for the Gold Standard Reserve is England?—Yes.

2758. Because you could make no use of it in India except for the purposes of exchange at certain times?—Quite so. It should be kept where it is likely to be wanted, which is London.

2759. Are you in favour of the Secretary of State guaranteeing the exchange at 1s. 4d. and not allowing it to go below the parity of 1s. 3½d.?—If you mean that the Secretary of State should intimate that he will protect exchange under all circumstances, yes.

2760. Do you think there is a redundancy of silver currency in India now?—I do not think so. As I have pointed out, sometimes there is a scarcity of rupees. I have some tables here which may be of interest to the Commission. We instructed our branches some time ago to get an exact account of their receipts and disbursements of currency notes, silver, and gold, and I have the information summarised here. The manager of our Calcutta branch reports that his receipts included 90 per cent. of currency notes, 9½ per cent. of rupees, and only ½ per cent. of gold. Those are his receipts for four weeks.

2761. (*Sir James Begbie.*) What were the dates of those?—10th May, 17th May, 24th May, and 31st May; they were four weekly statements.

2762. This year?—Yes.

2763. Is this a branch of your National Bank?—Yes.

Bombay reported* :—

Currency notes	-	-	-	98½ per cent.
Rupees	-	-	-	17/6 "
Gold	-	-	-	17/6 "

Madras :—

Currency notes	-	-	-	95½/6 "
Rupees	-	-	-	31½/6 "
Gold	-	-	-	8 "

Karachi :—

Currency notes	-	-	-	97½ "
Rupees	-	-	-	17/6 "
Gold	-	-	-	17/6 "

Delhi :—

Currency notes	-	-	-	27 "
Rupees	-	-	-	36½ "
Gold	-	-	-	36½ "

Lahore :—

Currency notes	-	-	-	85½/6 "
Rupees	-	-	-	8½/6 "
Gold	-	-	-	6½ "

Cawnpore :—

Currency notes	-	-	-	29½ "
Rupees	-	-	-	38½ "
Gold	-	-	-	32½ "

Amritsar :—

Currency notes	-	-	-	61½ "
Rupees	-	-	-	20½ "
Gold	-	-	-	17½ "

The next branch on my list is Cochin, and it is a remarkable fact that in Cochin gold is very freely taken :—

Currency notes were only	-	-	-	4 per cent.
Rupees	-	-	-	13 "
Gold	-	-	-	83 "

Then at Tuticorin, which is quite near to Cochin, you have this extraordinary difference, that the notes represent 73½ per cent., the rupees 25½ per cent., and the gold 1 per cent.

2764. (*Sir Shapurji Broacha.*) They are almost neighbours in regard to their geographical position, are they not?—Yes.

2765. (*Chairman.*) Can you give any explanation of the wide discrepancy between those two neighbouring places?—It is impossible to say.

2766. There is nothing in the nature of the trade that would explain it?—No; I think it is more in the nature of the native. I have the receipts for three other branches here; they are—

Chittagong :—

Currency notes	-	-	-	6½/6 per cent.
Rupees	-	-	-	93½ "
Gold	-	-	-	17/6 "

Rangoon :—

Currency notes	-	-	-	91½/6 "
Rupees	-	-	-	8½/6 "
Gold	-	-	-	1½/6 "

Mandalay :—

Currency notes	-	-	-	46½ "
Rupees	-	-	-	53½ "
Gold	-	-	-	nil "

One thing that comes out rather strongly in this table is the small amount of gold wanted in the Presidency towns and the large percentage wanted at up-country places.

2767. (*Mr. Keynes.*) Are those actual amounts or only percentages?—They are percentages that I have been giving you.

2768. (*Mr. Gladstone.*) Could you give the average percentage of the whole?—The average of the percentages of the whole of the 13 branches I have given you is, currency notes 62 per cent., rupees 24 per cent., and gold 14 per cent.

2769. (*Sir Robert Chalmers.*) We should like to get the figures in their proper perspective. As they stand now, one branch may be speaking of a million pounds and another of a hundred thousand pounds. If you would imagine that the actual figures from each branch were separate items in one central account, and if you would kindly add up all the gold amounts in one total, all the rupees in another, and all the notes in a third,

* See also Appendix XVIII., pp. 541-2.

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and ascertain the percentages of those three totals, we should be able then to get percentages which would be adjusted and properly weighted?—I will do that.*

2770. (*Sir Shapurji Broacha.*) Now in regard to a State bank, the Presidencies are very jealous of the credit of their merchants, and the people in Calcutta might not do justice to the requirements of the Bombay people, but unless they had the power of committing Bombay there could be no central government?—That is so.

2771. The percentages you have given us show that although gold is free now, it is not used much in comparison with rupees?—That is so in the Presidency towns and large places.

2772. As you know, all the trade in India is done in cash, and I think they are short of rupee coinage, although they prefer rupees?—Very often they are short of rupees.

2773. At present, I think there is only half a rupee per head in the Currency Department?—That may be so.

2774. That is very little for the people of India. Do you know that in France, even in the Currency Department, there is something like nine rupees a head in silver, let alone gold, and that in Germany it is something like three rupees a head; so that half a rupee per head in the Currency Department in India is very little?—Of course, India is a very much poorer country, or rather the bulk of the population are very poor.

2775. The poorer the country the fewer instruments of credit they have, and therefore they require more cash to circulate among them, as all their transactions are much more on a cash basis?—Yes, that is so.

2776. (*Mr. Keynes.*) From the figures you have read to us I got the general impression that where notes were not much used both rupees and gold were used more than elsewhere; do you think that sovereigns in the Punjab mainly compete with rupees as a form of currency or with notes?—With rupees. (*Mr. Fraser.*) I agree with that.

2777. In those figures you gave us it was the case, was it not, that where the gold was used in a high percentage, the notes were used in a low percentage?—(*Mr. Toomey.*) In some places where there is a currency office, notes are freely taken; they are not so freely taken where there is no currency office.

2778. Would you say that they use gold in the Punjab a good deal because they have not got into the habit of using notes, or is it for a different reason?—In some places they have never used notes to any extent, and they are taking sovereigns now in place of rupees.

2779. In other parts of the country, as they give up rupees, they take notes instead of rupees?—Yes; there has been a great expansion of the note issue, and one reason for that expansion is the making of the 10-rupee note universal.

2780. Would you prefer that the rupees should be replaced by notes as they have been in Bengal, or by sovereigns as they are being in the Punjab?—(*Mr. Fraser.*) I should not say that notes have replaced rupees in Bengal. The whole of the vast jute trade in Bengal is practically financed in rupees, and there is very little object in sending notes to Bengal because they do not want them. Then the rice crop in Burma is almost entirely financed by hard cash.

2781. I was not speaking of that, but I noticed that in the figures Mr. Toomey gave, Calcutta had a very high percentage of notes?—That refers to Calcutta as a town, and not to the district.

2782. Is that a more desirable tendency than the tendency in the Punjab, or a less desirable one?—I should prefer to see people taking notes to gold or silver; do you not agree? (*Mr. Toomey.*) Yes.

2783. Sir Shapurji asked you how much liquid gold you thought there ought to be in the Gold Standard Reserve, and you, Mr. Toomey, I think, gave 10 millions as the sort of figure you had in your mind, and Mr. Fraser thought about 15 millions?—That is so.

2784. Are those figures contingent in any way on the amount earmarked in the Paper Currency Chest?—That figure was given on the present figures of the Gold Standard Reserve.

2785. Was it on the assumption that there were about six millions in the Paper Currency Chest?—Are you talking about the Paper Currency Reserve along with the Gold Standard Reserve just now?

2786. I am asking you whether you made any assumption as to the amount held in London in the Paper Currency Chest when you gave 10 millions as the right figure for the Gold Standard Reserve?—No. We took the Gold Standard Reserve as a separate thing, and said that there ought to be 10 millions out of the present holding in the Gold Standard Reserve.

2787. You think that figure is entirely independent of the amount of gold held elsewhere?—Yes; we do not take other figures into account.

2788. Even if the Secretary of State held 10 millions in liquid gold in the Paper Currency Chest, would you still think that he ought to hold 10 millions in the Gold Standard Reserve?—What we say is that the Gold Standard Reserve amounts to about 22 millions sterling, and out of that there ought to be at least 10 millions sterling held in actual gold; Mr. Fraser says 15 millions.

2789. But why?—Because we want to see the Gold Standard Reserve absolutely strong.

2790. I suppose your object would be in order that the Secretary of State should have liquid resources that he could put his hand on; or would you have any other reason? If he has other liquid resources, would not the amount wanted in this particular reserve be less?—(*Mr. Fraser.*) The point in connection with the gold in the Paper Currency Reserve is this—that it is not earmarked, and that it would have a tendency, as it has at the present moment, to dribble quietly away.

2791. I am speaking of the gold in the Paper Currency Chest in London?—If you lay down a rule that you are going to have a certain amount of gold in the Paper Currency Chest in London, you could, of course, take that into consideration in gauging the amount you would have in your Gold Standard Reserve, and to that extent you could bring the two together.

2792. When you gave 15 millions as the right figure for the Gold Standard Reserve, were you assuming that about the present amount, namely, six millions, would be held in London in the Paper Currency Chest?—Yes.

2793. If that was increased, then you would not want so much in the Gold Standard Reserve?—(*Mr. Toomey.*) The amount in the Paper Currency Reserve in London is a fluctuating quantity. (*Mr. Fraser.*) It is merely the first line of defence in the matter of exchange as it stands at present, but it is only the first line of defence really as long as it remains in London, because whenever it is in India it has a tendency to dribble away, and it is usually not there when it is wanted.

2794. If the policy was followed of having a good deal of gold in that reserve in London, would that influence your opinion of the amount that ought to be held in liquid form or in the most liquid form in the Gold Standard Reserve?—To some extent, yes. You can never have a large amount here because, as Sir James Begbie brought out, if you have an excess amount of gold here against your note issue in India, then you run the danger that you cannot redeem your notes, because you have your reserve in London, while your liability is in India. Therefore, the amount at which you can place your gold in London against your notes must always be limited in my opinion.

2795. But it might be somewhat larger than it is now?—It might be, but that is a point which would have to be gone into very carefully, and I should think the Government of India's Currency Note Department would be very well able to form an accurate opinion as to how much could be done with safety.

2796. If it were found to be safe to have a certain amount of gold in London, would you say then that that amount ought to be taken into account in fixing the amount of gold in the Gold Standard

* See Appendix XVIII., pp. 541-2.

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Reserve?—You should certainly make allowances for it. As soon as it began to disappear, then it would be about time to begin selling your securities, I should think.

2797. In the course of your evidence you have suggested that the Government of India should lend money in India to the Presidency banks?—(Mr. Toomey.) Yes.

2798. In 1900, when there was a suggestion of that, the exchange banks put in a claim to have a certain share of that money?—They did.

2799. But you do not endorse that?—(Mr. Fraser.) We do not endorse it. (Mr. Toomey.) We say the money should be lent to the Presidency banks only. If we want money we should apply to the Presidency banks, and they could make their 1 per cent. or whatever it was out of it. (Mr. Fraser.) We have no grievance against the Presidency banks as lenders; we have always found them reasonable. I speak from my own experience. (Mr. Toomey.) I say the same thing.

2800. I only wanted to get that point plain, that you did mean us to infer from your answer that the exchange banks were making no claim to have money lent to them in India direct?—No, they make no such claim. (Mr. Fraser.) I might say that the manager of one of the foreign banks in London, in writing a personal note to myself on our evidence as detailed in our memorandum, said that he thought the Secretary of State's approved list might be enlarged so as to bring some of the foreign banks into it, provided the foreign banks could put down the security asked for. I merely thought it right to mention that.

2801. That was referring to the approved list for loans in London?—For loans in London only.

2802. (Lord Faber.) You have told us, I think, that it is not always easy to change gold into rupees?—(Mr. Toomey.) I gave you one instance of that at Delhi.

2803. Can you always do the converse—change rupees into gold?—There is no obligation on the part of the Government of India to give gold out in exchange for rupees. At present the people of the country can tender rupees and get gold, but I do not think it would be advisable for the Government of India to enter into any obligation of that character; you would get on to a gold currency at once.

2804. With regard to exchange, am I right in thinking that if the balance of trade is in favour of India then England must pay that balance by buying Government bills or by exporting gold?—Practically.

2805. Is the balance of trade generally in favour of India as against the world?—Yes.

2806. India has a credit account?—It is generally in favour of India, except at such times as when we have a famine.

2807. Like England India is a creditor country and not a debtor country?—It is a creditor country.

2808. You will agree with me, I think, under those circumstances in thinking that India will not want as much gold, being a creditor country, as it would if it were a debtor country, because the ultimate balance of foreign trade has to be settled in gold?—That is so. If India was not so successful she would take less in the form of remittances.

2809. (Mr. Keynes.) I come now to the question of the proposal for a State bank. You stated in your evidence that the establishment of such a bank would result in a banking monopoly; do you mean by that that the exchange banks would be almost driven out of existence?—They would.

2810. Would your objections be met to any appreciable extent if the State bank were precluded from accepting deposits in London—outside India?—(Mr. Fraser.) That would not help. (Mr. Toomey.) No, that would not help the situation at all. (Mr. Fraser.) I do not think the central bank would ever come here for deposits. Our deposits in London are not such an all important item in our business, and I do not think they would come here and compete.

2811. Am I to understand then that the exchange banks do not regard it as an important part of their business to attract funds in London and use them in India for financing trade?—(Mr. Toomey.) We take

deposits in London, and we certainly look upon that as an important factor in our business.

2812. That part of your business would be left untouched?—Yes, but it is not such a very large item. (Mr. Fraser.) The question, of course, is a central bank with power to borrow in London. The assumption is that they would either offer the same rate as we do or a better rate, and the chances are that they would offer a better rate than the exchange banks in all probability, having regard to the fact that they have the backing of the Government.

2813. If the State bank were precluded from attracting deposits outside India would that remove your objection?—(Mr. Toomey.) No, not at all. (Mr. Fraser.) Certainly not.

2814. Your reason for this answer is that that part of your business, namely, attracting funds in London for financing Indian trade, is not an important part of your business?—(Mr. Toomey.) We say that if the State bank had a London office and did exchange business we would be driven off the field.

2815. I understand you to say that, and I am trying to get at your reasons for saying it. I have pointed out one part of your business which would be unaffected, and I understand your answer to be that that is not an important part?—The London deposits are not so very important.

2816. (Chairman.) In speaking of London deposits, do you mean English money or United Kingdom money?—Yes.

2817. (Mr. Keynes.) You would, therefore, lay no stress upon the claim which has sometimes been made by the exchange banks that they play a most important part in financing Indian trade by attracting funds in London for that purpose?—We do not make a point of that.

2818. Suppose that the State bank were limited in its dealings in exchange to remitting about the amount the Secretary of State required, say, 25 millions a year, would that modify your objections?—It would not modify our objections in the slightest degree. If they were allowed to operate in exchange at all, the results to the exchange banks' business would be very serious.

2819. If they remitted merely the balance of trade, that would only be a fraction of the total trade—shall we say one-fifth?—If they were quoting rates of exchange, they would be able to quote much better rates than exchange banks could.

2820. Why should they wish to do so? They would probably wish to remit money to England at as favourable a rate to themselves as they could?—If they were to enter the exchange market it would be practically all up with our business.

2821. I do not understand why you assume that they would force the rate of exchange down?—They would have to quote better rates than the exchange banks, and we would have to sit out.

2822. Would they affect you more than the establishment of a new exchange bank, which attracted, say, one-fifth of the business?—We do not object to other banks starting, if they have got to start on the same footing as ourselves.

2823. Would you be wiped out by a bank which was restricted to doing no more than one-fifth of the business?—One-fifth of what business?

2824. One-fifth of the remittance business?—If a new bank were to start in the same way as we have had to start, they could only quote about the same rates as we do, and they could not cut under our rates; but a State bank could do business with no profit at all. (Mr. Fraser.) We have a very good illustration of that in the Reichsbank in Germany. When the Reichsbank wants to influence exchange it is not a matter of profit or loss; they operate, and the other banks stand still and look on.

2825. That is, when they wish to attract gold?—It would be the same thing with a State bank in India. When the Secretary of State wanted remittances from the Government of India, the State Bank would go on remitting to him, and we should not be able to enter the market and buy because it would not be a question of profit with the State bank.

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2826. At present the Secretary of State stands out for as good a rate as he can get, does he not?—We do not admit that. He takes the market rate.

2827. He does not undercut the market rate; he does not ruin the market?—Certainly not.

2828. Why should a State bank act very differently, and have a very different effect on the market, from the Secretary of State, supposing it were remitting to the same amount?—The central bank would have to operate in India, and they would have to undercut and reduce rates until, we argue, there would be no profit left in exchange and we would have to go out, because there would be nothing left for us. You can only work an exchange business to make a small profit—the profit is small, and it is the turnover that makes the money. If that profit disappears, and you have not got anything to work for, you would naturally go.

2829. The State bank would have to offer a rate which would enable it to get 25 millions' worth of bill in the course of the year?—Yes.

2830. For getting those bills it would want as high a rate as it could get?—(Mr. Toomey.) They would not bother about any particular profit. (Mr. Fraser.) They are working with funds that cost them nothing to start with.

2831. Your view is that the State bank would not work for a profit and so would ruin your business?—Would ruin our business by undercutting.

2832. I think I understand your opinion now. The arguments against the State bank given in your memorandum do not touch, I think, all the points which might be raised in favour of a State bank by an advocate of such an institution, and I want to put to you one or two of the other arguments which might be used in favour of a State bank, and ask you what your feeling would be in regard to those arguments. The first point is in regard to Government balances. This year, during the earlier part of the year, the Government had in its reserve treasuries something like seven millions apart from large sums in other treasuries; it has been held that while it might lend a small part of that to the Presidency banks it could not lend to private institutions any very large part of the seven millions?—(Mr. Toomey.) They would not be called upon to lend any very large sums; the securities do not exist.

2833. The point is that they could only lend to private institutions on security?—Quite so.

2834. The private institutions could not offer much security of a suitable amount, and therefore there is a strict limit to the amount that they could lend to the private institutions?—Yes.

2835. If there were a State bank those difficulties would be somewhat removed, and instead of having the independent Treasury system, they could then pass not the whole but a very much larger part of their balances into the hands of the bank?—(Mr. Fraser.) To be lent on what—on general business?

2836. To be lent on general business?—Without restriction?

2837. I do not say without restriction?—I should be sorry to think that the Government of India's balances would be lent out without very drastic restriction.

2838. I am putting this point, that in nearly all the countries of the world the Government has a banker?—That is so.

2839. That is to say, there is a State banker with which it leaves nearly all its money; in India that is not possible because there is no State bank?—We of course argue that geographically the country is not suited to a State bank, and it never can have one.

2840. (Sir Robert Chalmers.) In the Presidency banks may it not be said to have State banks already?—(Mr. Toomey.) We say that India has got practically three State banks already.

2841. (Mr. Keynes.) But being private institutions, they cannot receive more than a small amount of Government money. Do you think it would be *pro tanto* an advantage in a State bank that more Government money could be placed with it?—Do you mean it would be a greater advantage if the Government

placed larger sums with the existing Presidency banks?

2842. It would be an advantage if they could; but they cannot, because these Presidency banks are private institutions?—(Mr. Fraser.) We suggest that one way of getting over the difficulty is to lend the Government funds beyond the agreed-upon amounts to the Presidency banks against security.

2843. But, on the other hand, I gather from you that the amount of such security forthcoming is small?—The Presidency banks can always put down, I should think, as much as they want in that respect.

2844. Do you think, therefore, that large sums could be lent against security to the Presidency banks?—I should think the position of the Presidency banks is such that they could always borrow on security all they could reasonably require.

2845. Five millions?—I should not like to say what the actual figure was; but I should not think India is ever likely to want five millions. We do not admit that there is a need for further banking facilities in India. As a matter of fact, for a large portion of the year we cannot use our money there; at the present moment the Bank of Bengal rate is 4 per cent. and we cannot get 2 per cent. in Calcutta for call money, or even $1\frac{1}{2}$ per cent. there.

2846. Do you think it would be an advantage if in the busy season more money was available in India?—I think it would be, but then it would not be such a very large amount that would be required. I should think that two or three crores more on the Indian money market would mean the difference between poverty and the other thing. The very suggestion that you were going to lend two or three crores would bring out the Shroff's money and other money, and that would relieve the stringency.

2847. Do you think that if two or three crores of rupees were lent the high bank rate in the busy season would disappear?—I should think so. (Mr. Toomey.) Two or three crores will go a long way towards making the market easy.

2848. Your estimate seems optimistic?—(Mr. Fraser.) We speak from practical experience. We cannot employ our money now in India at a profit; it is simply lying idle. You will understand that, when you consider that the mills in Bombay can get money all the year round, and have got it, for $4\frac{1}{2}$ per cent. per annum.

2849. Would they not be prepared to do that here for the whole year round?—No; the Manchester mills cannot get it on the same security.

2850. I was not, however, speaking of all the year; I was speaking of three months, the busy season?—Money at that time runs up and a very large number of merchants make special terms, so the rate is not regulated by the bank rate.

2851. Am I to understand that a sum of two millions sterling lent during the busy season would be sufficient to prevent the Indian bank rate from rising to any high level?—It is difficult to state definitely that it would, but I should think, judging by the experience of the past, that two to three crores of rupees would make a great deal of difference. The past season has been an exceptional one, and there has been a lock-up of money in Bombay in opium, and a very large lock-up. (Mr. Toomey.) And in cotton too. (Mr. Fraser.) And in cotton, because cotton did not go forward owing to difficulties on the Continent. These two factors have very largely contributed to the present position. There is also a considerable amount looked up at the moment in yarn. Therefore, although there has been rather a high rate this year, which was more stringent in Bombay than in Calcutta, there is no reason to suppose that is going to occur next season. The tendency before that was for money in India to come down steadily in value, and I think Sir Shapurji will confirm my view that money will tend to become cheaper year by year in India.

2852. (Chairman.) But it runs up to 7 per cent. or 8 per cent. in the busy season?—(Mr. Toomey.) It has not been above 8 per cent. for the last five years.

2853. When you say three crores would make a considerable difference—I do not want to make you

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speaking with more confidence than you feel—do you mean it would probably keep the rate from going above 6 per cent.?—(Mr. Fraser.) I should hardly like to say that, but I think it would mean all the difference between stringency and the other thing. I think a 6 per cent. rate in India is not at all burdensome to anybody.

2854. (Mr. Keynes.) Do I gather you would feel there would be no advantage in a State bank if it had the effect of lowering the rate of interest in India below 6 per cent. in the busy season?—(Mr. Toomey.) I think there are very few complaints in India as to a bank rate of 7 or 8 per cent. At that time the merchants are all making money and they do not complain of these rates.

2855. Would you say a 7 or 8 per cent. bank rate would help you?—It does not hurt anybody.

2856. It does not hurt anybody?—Not for the two or three months. (Mr. Fraser.) If you make money very cheap the native hangs on to his produce and speculates on his produce, and I do not think the merchant or exporter would thank you very much for that.

2857. The arguments which I suggest to prove that the existence of a State bank might have the effect of lowering the bank rate do not impress you very much because you do not regard it as an object to reduce the bank rate?—(Mr. Toomey.) We do not like to see money too tight, of course, but we do not look upon a bank rate of 7 per cent. as out of the way in the busy season. (Mr. Fraser.) One would not object if the bank rate never went over 6.

2858. I go now to a point connected with this, but rather different. In the past there have often been banking crises in India, but not within the last ten years, I think?—(Mr. Toomey.) Was there any banking crisis ten years ago?

2859. There has not been a crisis for at least ten years or more?—Not for a good many years.

2860. Within the last ten years there has been an extraordinary growth of deposit banking in India?—Yes, and the resources of the exchange banks have steadily grown.

2861. The figures published in the official statistics are that the Indian deposits of the exchange banks in 1901 were 7,900,000*l.* and in 1910 16,200,000*l.*?—There has been a steady growth of deposits.

2862. Their cash resources in that same period increased from 2,200,000*l.* to 2,900,000*l.*?—Those figures do not explain everything.

2863. I should be much obliged if you would amplify them?—We always have a lot of money on the way out in the shape of Council bills. (Mr. Fraser.) And sovereigns too. (Mr. Toomey.) Sovereigns from Australia, London, and so forth. (Mr. Fraser.) I might say that in the figures we recently gave to the Government of India, speaking for the bank I represent, we did not include three-quarters of a million sovereigns arriving within a week of the figures being published, which we, to a certain extent, of course, regard as cash. These are largely imported against our purchases of exchange, and we probably, in anticipation, have used up some of our local cash resources to meet our exchange commitments, and then the sovereigns come in and fill up the cash.

2864. Do you mean that on the particular day on which you made up your books you had less resources in India than you have usually?—(Mr. Toomey.) No. (Mr. Fraser.) At that particular moment we might have almost included these sovereigns as cash.

2865. I can understand that you have money coming in, but I suppose you also have money going out in the immediate future? If your books were made up a fortnight later, would they have shown a better result?—Not having the facts before me, I should not like to make a definite statement.

(Mr. Gillan.) Are these figures you are quoting, Mr. Keynes, the figures of a particular day or averages?

2866. (Mr. Keynes.) They are figures I have taken from the statistics of British India, and no statement is made as to the date?—I believe the dates given are 31st December in each year.

2867. I do not want to press this point; all I want to call attention to is that the Indian deposits have very greatly increased?—(Mr. Toomey.) Yes, they have.

2868. There is an important class of joint stock banks that have grown up in India, and their deposits have increased even more than those of the exchange banks?—(Mr. Fraser.) They have increased enormously.

2869. Those banks keep very small cash reserves against their deposits?—(Mr. Toomey.) Very.

2870. So that apart from the Presidency banks the deposits in India are perhaps three times what they were ten years ago?—That may be. I accept those figures.

2871. With no corresponding increase of cash?—(Mr. Fraser.) I should not like to make a definite statement on that point, not having any figures before me. I admit the enormous growth of these Swadeshi banks, as we call them, and the enormous growth in their deposits. It has been openly stated in some quarters, but I have not verified the facts, that their cash balances are not adequate.

2872. What is the relation of these banks to the Presidency banks; do they have sums on deposit with the Presidency banks to any important extent?—(Mr. Toomey.) I should think not. (Mr. Fraser.) I should think not too.

2873. Do they include in their cash sums left with the Presidency banks, or is it all free cash?—I should think the cash at the Presidency banks is taken as cash.

2874. Is that an important part?—I could not say.

2875. In the case of the exchange banks do they keep any appreciable sum with the Presidency banks?—Yes.

2876. Do they include that in their cash?—Yes.

2877. The position is, therefore, that to a quite important extent the Presidency banks act as bankers' banks?—That is so.

2878. And there is not much free banking money in India outside the Presidency banks?—Not in the busy season.

2879. I want to put to you whether you think that the Presidency banks, taking account of this great growth of deposit banking, are really in a strong enough position to act as bankers' banks?—Assuming they get the facilities from the Government that have been suggested, I think so.

2880. But under existing conditions?—If you can imagine a banking crisis when everyone was pulling on the Presidency banks, I should say they probably would not be able to meet the requirements of everybody.

2881. How do you feel in regard to these figures; in 1910 the total deposits, excluding public deposits, in India were about 55 millions?—What does that include?

2882. That includes the exchange banks, the private deposits with the Presidency banks, and those Indian joint stock banks which have more than five lakhs of paid-up capital and reserve; the deposits were about 55 millions, and the cash in the Presidency banks was 7½ millions?—(Mr. Toomey.) That is quite an ordinary average working balance.

2883. Supposing there were to be a banking crisis in India everybody would go to the Presidency banks for money?—(Mr. Fraser.) The exchange banks would probably call upon London, I should think, and take Council telegraphic transfers.

2884. I wanted to get out that point: The exchange banks would rather rely in the next banking crisis on being able to remit large sums from London?—I do not say we would rely upon it, but if the necessity were forced upon us—(Mr. Toomey.) We should have to ship sovereigns or take Councils.

2885. Suppose you had to ship sovereigns and to do this to a large amount, because your total deposits in India must be now something like 20 millions, do you think you would find it easy to rediscount your bills and to raise money in London?—(Mr. Fraser.) We could always discount at a rate.

2886. If you wanted to take the money out in actual gold, not at an ordinary time but at a moment.

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of crisis, do you think it would be easy for you to do that?—(Mr. Toomey.) I see no difficulty about it. (Mr. Fraser.) You must also assume that in those conditions the Secretary of State has no balances on the other side, and will not sell Council bills.

2887. I am taking this alternative first, that you had to send out sovereigns; do you think the exchange bankers would have no difficulty in raising in actual gold a very large sum in sovereigns in London at a time of crisis?—I should think not. If you assume they could not do it, then of course you stop the export of gold. If you are assuming that we cannot get sovereigns, you mean that we are no longer a free market for gold.

2888. I assume they could get gold if they had free resources, and you think there would no difficulty in their obtaining free resources?—We are all constituents of the Bank of England, we know the bills the Bank of England takes, and the Bank of England always discounts bills for its customers. There is no reason to suppose they would not stand by us if we wanted accommodation.

2889. The other alternative would be that you should buy large sums in telegraphic transfers from the Secretary of State?—That is what we should naturally do assuming he had money on the other side, which he probably would have, because if he could not draw on his Treasury balances he would probably draw on his Currency balances in an emergency.

2890. Then you are rather relying upon him to use his Currency balances to relieve India's banking in a crisis?—We are not relying on that, but we are assuming that in these conditions he would have those means of meeting those drafts.

2891. Would you feel in a stronger position if the whole business were more centralised—if the Secretary of State's balances and the bankers' balances, instead of being kept in various places and by various authorities, were all kept in a State bank which would be under a certain responsibility to look after a situation of this kind?—(Mr. Toomey.) I do not think a State bank would look after the situation any better than we can under existing circumstances. (Mr. Fraser.) I should think the Presidency banks worked in conjunction with the Government would be quite as powerful and as good an influence as any State bank.

2892. Do you assume that they would have to work in conjunction with the Government?—They always have, and they always would, I think, in the event of a crisis, work in conjunction with the Government. Assuming such a crisis as you are picturing, which has never exactly come about, but assuming such a one ever did—we have not seen it, but of course we admit it might come—the danger is that India is going rather fast in the matter of banking, and new banks are springing up every day. I have only taken out 14 of what you might call the leading Swadeshi banks—the figures are not all for the same date—and they show a capital of 2 crores 41 lakhs paid up, and deposits of 24 crores.

2893. The main point I am putting to you is this—that when the last banking crisis came in India, deposit banking was in its infancy there?—(Mr. Toomey.) There were very few local banks then. (Mr. Fraser.) That is so—very few.

2894. There has been an enormous increase in their number, particularly in the last 10 years?—(Mr. Toomey.) Yes.

2895. More particularly in the last five years; and the increase is still going on?—(Mr. Fraser.) Yes.

2896. So you have no experience as to what would happen if there was a banking crisis in a country where large deposits are now being made and which has not forgotten the habit of hoarding?—I should think that if a banking crisis such as that developed there would be a very serious run on some of the banks. The chances are probably that the old-established banks which have stood the storm and have got a reputation would not be run upon. I cannot say that I remember a run upon our own institution.

2897. You have a rapid growth of deposit banking, and a good deal of it in banks which have never stood a severe strain?—That is admitted, I think.

2898. And which have also no very high proportion of cash reserves?—I should think that some of what you might call the local banks do keep adequate reserves, but there are probably many of them that do not. I would not like to speak about that with absolute certainty. Such banks as the Alliance Bank of Simla, for example, and the Allahabad Bank have always stood very well, and been conducted, I think, on prudent lines; but there are others possibly that have not been.

2899. Further, there is no central banking reserve of any sort, such as the State banks of Europe have?—That is so, unless you accept the Presidency banks as occupying that position.

2900. And also there is no sort of mechanism whatever for any sort of emergency currency or for any expansion of the note issue?—(Mr. Toomey.) Only the Gold Note Act.

2901. It can only be expanded against rupees or notes?—(Mr. Fraser.) Against rupees or the deposit of gold. We can put down gold here and get notes issued in India, or rupees.

2902. All the Government can do is to exchange one form of currency for another: they cannot increase the amount of currency?—Except by fresh coinage.

2903. So that all the usual precautions which are taken by European countries that have deposit banking against a crisis are incompletely existent in India?—You mean in regard to such precautions as expanding the currency in the event of a crisis?

2904. And having a central reserve?—As regards expanding the currency in India, the people want cash, not notes.

2905. I am not saying that ought not to be given, but I mean that as that possibility does not at present exist, it is all the more important that the other sorts of precautions should be taken?—The other precaution being to centralise your reserves?

2906. Yes, and having some important authority which looks at the situation as a whole?—We would leave that to the Presidency banks working in conjunction with the Government.

2907. You do not think that a State institution, which was in the habit of working in conjunction with the Government, and did not have to fit up some patch-work arrangement in a moment of crisis, would be in a better position to deal with a situation of that sort than a State bank?—Has your State bank solely to deal with the crisis when it arises, or is it to have other functions?

2908. It would have other functions, but it would be practically in touch with the Government?—If we had a State bank which we could fall back upon in the event of a crisis, of course we should rather welcome it. But if we are to have a State bank which is going to take over the paper currency and to have a monopoly of Council bills and of all other Government business free of charge we should naturally oppose it.

2909. Might I put it like this, that while you feel a State-aided body with vast powers of that sort might be open to certain objections, still it is true that the banking position in India would be strengthened by such an institution at a time of crisis?—Granted that the bank exists for that purpose and that purpose only, of course it would relieve the strain.

2910. Allowing that for other purposes the bank were detrimental, if that were amongst its purposes would it be a good thing?—That is assuming an impracticable position.

2911. I am not saying there are not any disadvantages?—After all, if you did have a central institution, we all learn by experience, and you do not want banks to fall back too much upon any central institution. Each bank, properly speaking, should so conduct its business that so far as it possibly can be it is independent of these outside aids.

2912. But you would not maintain that that was the case in India at present, would you? As I understand, the banks keep a great part of their free money with the Presidency banks and keep no reserves of

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their own to any large amount?—I should not like to say what a number of those up-country banks do, because they are established at many points where the Presidency banks do not exist, so probably they do keep considerable balances. It is difficult to speak without actual knowledge, and I can only say that in the Presidency towns I think these banks keep their cash with the Presidency banks.

2913. I should like to know, if you can tell us, a little more about the relations of the exchange banks at present with the Presidency banks. I understand that you keep balances with them much in the way in which English joint stock banks keep balances with the Bank of England; is that so?—Much the same.

2914. Do you also borrow from them to any important extent?—In bygone days we did. (*Mr. Toomey.*) But not now. (*Mr. Fraser.*) Not much, anyhow.

2915. Not now?—Very little. (*Mr. Toomey.*) Occasionally, possibly. (*Mr. Fraser.*) I think in recent years the exchange banks have not been big borrowers from the Presidency banks.

2916. Apart from the question of competition in exchange, would your relations with a State bank be very different from your present relations with the Presidency banks?—Our present relations with the Presidency banks are most friendly. I should think with a State bank they would probably be the reverse.

2917. Is that a sentiment of yours, or have you definite arguments with which to support it?—I do not see how it could be very well otherwise, when we feel that the advent of a bank with all the privileges that have been suggested would naturally mean almost our extinction.

2918. I put aside for the moment the question of competition in exchange; apart from that, why should your relation to a State bank be unfriendly?—You are leaving out the question of exchange entirely?

2919. Yes?—Then they are there simply to benefit us, and exist to help us when we are in trouble.

2920. They are there to consolidate the existing system?—Then we could hardly regard them as enemies. Under those conditions we would not, I should think, feel they were enemies exactly.

2921. So that the central point of your opposition to the proposal for a State bank arises out of the possibility that they might deal in exchange?—That is one reason. Another reason is that we do not think the country on the whole would in any way benefit by a State bank. We cannot see that India as a country is suited for it. We have already given our reasons. (*Mr. Toomey.*) We look upon a State bank in India as quite impracticable. (*Mr. Fraser.*) We consider the existing machinery as it exists in the Presidency banks is ample for the country's needs.

2922. Do you think that for the Government to have a banker and for there to be a central institution is no advantage whatever, quite apart from other disadvantages?—(*Mr. Toomey.*) I do not see how it would benefit trade.

2923. Assuming a lower bank rate, is not that a benefit to trade?—I do not think people in India are looking out for lower bank rates. (*Mr. Fraser.*) You can have such a thing as too low a bank rate, especially in India. When you have a very low bank rate it always encourages speculation, and it would very probably bring about a state of affairs which you would rather wish to avoid.

2924. I will not ask you any further questions with regard to the State bank, but there is one further question I should like to put, which is somewhat connected with this. In a country like India, where there are certain dangers in banking owing to the habits of the people, the possibility of speculation and so forth, it is often important to have as much publicity as possible in the various banks. Would the exchange banks feel any objection to publishing accounts in which their Indian deposits were distinguished from their outside-Indian deposits, and in which their Indian cash was distinguished from their outside-Indian cash, provided all the banks had to do it?—(*Mr. Toomey.*) We should have to consult the other Indian exchange banks before we could very well

answer that question. (*Mr. Fraser.*) Naturally, no one bank would care to do it unless there was unanimity.

2925. I can quite understand that; but if all the banks did it, would your opinion be favourable?—(*Mr. Toomey.*) We should have no objection. (*Mr. Fraser.*) The bank I represent certainly would not object.

2926. You would agree with me that it is important, having regard to the whole banking position in India, that there should be accurate knowledge as to what the deposits in India are?—(*Mr. Toomey.*) We would have no objection to show them in a balance sheet if it were the general practice.

2927. I understand that you cannot pledge other banks, but so far as you are concerned yourselves, you do not see any objection to it?—(*Mr. Fraser.*) Not if the custom were general. (*Mr. Toomey.*) If other banks do it, we should raise no objection whatever.

2928. There is one other small point. Mr. Fraser's bank, I think, distinguishes between fixed deposits and deposits on current account?—(*Mr. Fraser.*) Yes, we do.

2929. Not all banks follow that practice; would there be any objection, do you think, to that practice being generally adopted?—(*Mr. Toomey.*) I see none from my point of view.

2930. Your bank does not actually do it?—No. (*Mr. Fraser.*) The Hong Kong and Shanghai Bank does it too. (*Mr. Toomey.*) We have no objection to doing so.

2931. You do not see any objection therefore against the banks having to show both how much they have in India on fixed deposit and how much on current account?—I do not see any objection to it myself. (*Mr. Fraser.*) If it is general; but you would not apply it to the exchange banks alone?

2932. No?—It would be applicable to the exchange banks, to the local banks, and in fact every bank would be put on the same footing?

2933. Yes?—I see no objection under those conditions.

2934. Would you have any objection to the publication of balance sheets from time to time which were average balance sheets, that is to say, which avoided all possibility of window-dressing?—We could not do it with the exchange banks. Our business is so involved that we could not possibly give you a weekly or a fortnightly balance, or a monthly balance. It takes us probably a couple of weeks at the end of each half-year, or more than that, to prepare our balance sheets. It is a complicated business. Then our branches are scattered all over the East, and so we could not possibly give, as the Presidency banks do, the weekly balances.

2935. My suggestion was meant to refer not to your whole business, but only to the Indian part of it. Would it be possible to publish average balance sheets? I do not mean that you should publish them weekly, but that your six-monthly balance sheets should be average balance sheets for the six months and not balance sheets for a particular day?—I should think that could be done. There is always a danger of too much legislation in banking, which we all deprecate. One does not want to be too much under the Government.

2936. I should like to raise once again a point Sir Shapurji put to you. He asked you whether you would welcome a guarantee by the Secretary of State that he would support exchange and you, Mr. Toomey, said "Yes," but you said it, if I may say so, without any enthusiasm; am I right in thinking that you do not attach any great importance to it?—(*Mr. Toomey.*) He is practically bound to support exchange within the limits of the gold points—1s. 3 $\frac{1}{2}$ d. and 1s. 4 $\frac{1}{2}$ d.

2937. Then you do not feel it would be a very significant thing for him to make an explicit declaration?—I do not think it would make very much difference to the world at large.

2938. You regard him as being already bound?—Yes, practically bound.

2939. So that a formal statement by him would not influence you very much?—No. (*Mr. Fraser.*) It certainly would not do any harm, but I do not see how

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the Government of India can possibly let the exchange fall without ruining the country and everybody in it.

2940. (*Sir Robert Chalmers.*) Is there any instance of any Government making a declaration of that kind?—I do not think there is any on record. The Government acted very weakly in our opinion in 1907-8, when they very nearly ruined the country by not promptly using their reserves. It was the result of a meeting of the exchange banks, I think, in London with the Indian Council that brought about the immediate use of the reserve.

2941. (*Mr. Keynes.*) You think there is no risk of a repetition of that, and that that risk would be avoided by a definite declaration?—(*Mr. Toomey.*) I think the Government of India now know exactly where they are, and, in the event of exchange falling, they would promptly give out gold or a draft on London, because they know what they had to do in 1907-8.

2942. From the Secretary of State's point of view you regard him as so much bound already that he would not be adding to his obligations by making an explicit statement?—No.

2943. (*Mr. Gladstone.*) I think you said money should be lent in India to the Presidency banks, in which case the amount of gilt-edged securities available is limited?—(*Mr. Fraser.*) Yes.

2944. Would not the exchange banks be willing to increase their holdings of gilt-edged securities, and so increase the total the Government might lend to relieve any exceptional stringency of the money market?—(*Mr. Toomey.*) Of course that could be done, but we rather feel that the Presidency banks, as a sort of bankers' banks, in a sense, would be better qualified to deal with that. Then of course if the Government deals on a basis of an approved list such as you have in London, you at once bring into existence the necessity for employing brokers, and I do not think the Government offices in India are equipped for that sort of thing, whereas if they deal direct with the Presidency banks they know exactly where they stand and the terms on which the money is lent. Otherwise, you might have to bring in exactly the same machinery as is necessary in London for the India Council.

2945. Hardly, because I am only proposing to approach the exchange banks, and they are so limited in number that it would only mean four or five?—The amount that the banks would gain in the matter of interest would be, in my opinion, so small that I think, broadly speaking, we would prefer to leave things as they are at present.

2946. You have expressed the opinion, I think, that an advance of three crores might be enough to diminish any sudden stringency; but that might not be enough—it might require five crores?—It might; that was only a figure.

2947. If the exchange banks between them hold securities to that extent, it would make the relieving of the market pretty certain?—Yes; assuming the exchange banks have these securities, and can always take them to the Presidency banks and get the accommodation they want, which they could if the Government feed the Presidency banks.

2948. As to the question of hoarding, I think Mr. Toomey said the hoarding is on the increase, owing to the greater prosperity of the country; is there not nowadays more disposition to invest in high-class securities at interest, and will not that diminish the custom of hoarding?—(*Mr. Fraser.*) I think the people of India are undoubtedly slowly and gradually investing more in securities than they used to do, as you can see from the mere fact that securities in Bombay, taking Government paper or Port trust bonds, all stand several points higher in India than they stand in London, which shows that there is a market, a large portion of which is undoubtedly native.

2949. Would you think that investments of this nature are likely to go on?—I think myself that these investments are as a rule made by people who are well educated and can form a judgment of their own, whereas the hoarding that goes on in India in my opinion is largely done by the masses, what you might call the agricultural portion of the people. It is done in small bits, but it is the aggregate that tots up when

you deal with a vast population. If you can by any means educate them up to the point at which they will see the folly of this, then I think the trouble will disappear to a large extent.

2950. (*Chairman.*) Do these small people hoard gold?—Probably they start with a rupee, and the chances are when they have got 15 rupees they exchange them for a sovereign, very frequently. (*Mr. Toomey.*) Now the workers in the jute mills and other similar occupations will have their little bits of ornaments in gold, whereas formerly they had their ornaments in silver. (*Mr. Fraser.*) I may mention that one of our agents recently told me that in the Amritsar Fair some of the well-to-do agriculturists who were present at the fair had strings of sovereigns round their necks, and that that was quite a common thing to see, whereas in bygone days they were content with strings of rupees.

2951. Nowadays they would be penalised if they hoarded any rupees, would they not?—If they realised the difference, which I suppose most of them do, but I fancy some of the very poorer type really do not quite understand it.

2952. (*Mr. Gladstone.*) Would you favour a larger proportion of the Government railway loans being issued in India, owing to this increase in the demand for investments?—Speaking personally, I should say yes. I think if the Government did more in the way of encouraging private enterprise to build railways in India than they have in the past, they could get more money, especially if they went in for a system of a guaranteed minimum and a share of the profits beyond a certain amount being given partly to the Government and partly to the railways; in other words, more encouragement should be given to private enterprise.

2953. They have given more encouragement of late years, but owing to the rates of interest those inducements are hardly sufficient now?—I think a good deal more might be done in India than is done now.

2954. Do you think a 4 per cent. guaranteed railway bond would go down well in India?—That might seriously enter into competition with the 3½ per cent. rupee paper if it has got the direct guarantee of the Government of India. It is on record, I believe, that the exchange banks, in conjunction with some of the Presidency Banks, offered an Indian railway company last year three crores of rupees for railway purposes on very reasonable terms—much better terms than have since been accepted by another company—but that offer was not accepted.

2955. One question as to the up-country treasuries. Have you considered whether the very large number that have been established are necessary?—Personally, I cannot speak on that point, as I have had no up-country experience. (*Mr. Toomey.*) I have not had any either.

2956. (*Sir Ernest Cable.*) I think you told the Chairman this morning about the Gold Standard Reserve, that you would prefer not to mention any limit?—Yes.

2957. You cannot assist the Commission, I suppose, by suggesting a logical principle on which we could arrive at some figure?—I do not think the time has arrived yet. I think the fund should be a good deal larger than it is at present before you fix the amount to be held in liquid gold.

2958. I should like to get an answer to this question from you, because it has been mentioned in the Press and elsewhere, I believe. It is said that the Secretary of State need never sell his bills below 1s. 4d., that he has only got to sit tight and he will obtain 1s. 4d. whenever he likes; what is your view about that?—I think that would not be desirable at all. If he held out for 1s. 4d., in the slack time of the year he might have to wait for a considerable time, whereas under the present system he reduces the amount when exchange is dull, and he can always feel the market. (*Mr. Fraser.*) He judges the market right through. (*Mr. Toomey.*) He reduces the weekly amount right through until he can find a market. By keeping the amount at 20 lakhs and so on, he can

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feel the pulse and eventually sell more as exchange goes up.

2959. You had a discussion with Sir Shapurji a little while ago about the London and Indian money markets; do you suggest that the Indian money market is at all dependent upon the London money market?—In what way do you mean?

2960. Do the rates of discount vary one with the other?—No, not exactly.

2961. They are independent?—They are independent of each other. (*Mr. Fraser.*) They are intimately bound up as far as buying rates are concerned. (*Mr. Toomey.*) But not as regards money. It does not follow because the Bank of England rate may be high that the Indian rate will be high.

2962. (*Mr. Gladstone.*) There would be a greater difference between a demand rate, of course, than between a four months' or six months' rate?—Yes.

2963. (*Sir Ernest Cable.*) You said this morning that it would be a desirable thing to increase the elasticity of the note currency in India; do you think that it is a desirable thing to get out as many notes as possible?—The idea would be to encourage the note issue. (*Mr. Fraser.*) Do you mean to increase the circulation and to get the people to take notes where they now take gold or silver?

2964. Yes?—We think that everything that can possibly be done to popularise the note issue is a step in the right direction, because the moment the people accept notes as currency, as they do in all highly civilised and developed countries, then their troubles disappear, and you get the condition of a note circulation and a note currency well backed.

2965. Do you think that the Government is as efficient in that respect as a central bank would be?—(*Mr. Toomey.*) More efficient.

2966. Why would you suggest that? Why is it more efficient?—They are doing everything they possibly can to extend the note issue, and they have had a vast experience in running the department. What has added largely to the increase in the note issue of recent years has been the universalising of the smaller notes.

2967. Would you say that the currency note in India is over-protected?—No, I would not. (*Mr. Fraser.*) Do you mean that there is too much cash and too little investment?

2968. Yes?—No. I think that the position is carefully reviewed from time to time by the Government of India. They always consult, I think, the various authorities, the Chambers of Commerce, and the Presidency banks, before they increase the amount of the investments, and I think the amount at present is reasonable; it is 14 crores.

2969. I was going to suggest that a central bank might develop the use of currency notes perhaps by re-discounting hundis, that is, native bills, which the Government cannot do?—(*Mr. Toomey.*) It would be rather a risky thing to do for a State bank to discount hundis. (*Mr. Fraser.*) It is a highly specialised business.

2970. You said this morning, in respect of your up-country branches, you do not come into competition with the Presidency banks?—(*Mr. Toomey.*) Not to any extent.

2971. Would you say—it is a point which is bound to arise—the same with regard to your operations in the Presidency towns?—We may do the same class of business as the Presidency banks, but there is room for all in these Presidency towns.

2972. I know that argument, and, of course, that would be the argument that would be used against you with regard to the exchange market probably. That is just the point I wanted to know, whether you are competing or not?—We have a local business as well as our exchange business; we have to run one with the other.

2973. You cannot suggest any means by which those hoards of gold and silver, which Mr. Fraser has just been talking about, in the ryot class should be brought out?—No, there is no way we can suggest.

2974. No sort of inducement would appeal to the agriculturist, I suppose?—No. (*Mr. Fraser.*) We

have touched very briefly on the question of co-operative credit, on which neither of us, I think, can speak with very much authority, except that the system, as we know it theoretically, rather appeals to us. I think in course of time, if the Government of India pushed that, they might by that means get the native to bring out his money. It seems to be the only thing so far that has had any really beneficial results.

2975. Knowing the native as we do, it is quite possible that, having a hoard in his village, he may still be borrowing at 40 per cent. or 50 per cent. from his hunnia?—(*Mr. Toomey.*) He can afford to keep these hoards, and will not part with them.

2976. (*Sir Robert Chalmers.*) If I remember rightly, you said, as one would expect, that the interests of the exchange banks were bound up with the general interests of India?—Quite so.

2977. And that the prosperity of India meant generally the prosperity of the exchange banks?—Yes, it means prosperity to us.

2978. You are looking at this question generally, therefore, on the basis of the prosperity of India?—Quite so.

2979. I think a criticism has been advanced in some quarters as to the action of the Secretary of State in keeping his Gold Standard Reserve in this country; it has been urged, I think, that the Reserve is kept in this country in the interests not of India but of the London money market?—I have seen that advanced.

2980. What do you say on that?—I say that London is the only market where the Gold Standard Reserve should be kept.

2981. In the interests of?—In the interests of India.

2982. Because?—Because if it ever has to be drawn upon the money will be required here.

2983. It is here where it is wanted?—Yes, and it could be of no use in India.

2984. It is kept here, therefore, in the interests of India?—Yes.

2985. Do you attach any importance to the criticism that the money is kept here in the interests of the London money market?—No; I think that is entirely wrong.

2986. Coming now to a detail, Sir Shapurji rather pressed you as to having 100 per cent. of the Gold Standard Reserve in gold; as bankers you are not without experience as to what you would do with money; it is not your practice to keep 100 per cent. in gold, is it?—No.

2987. What do you do in practice? Do you not have in your front line, cash, then money at call, then short-dated securities, and then investments?—Yes.

2988. Do you think that would be the sort of line on which your experience would suggest that the Government of India should deal with it?—Quite so.

2989. It is a mere question of expediency and of feeling the pulse of trade as to the proportion you would keep in gold?—Quite so.

2990. You would not dream of keeping 100 per cent. in gold?—I would not dream of keeping it all in gold; I think that would be too wasteful and extravagant.

2991. (*Mr. Gillan.*) I am not quite clear on this question of making loans in India what your attitude is. You have said in your memorandum (page 537 paragraph 12) that you would favour Government lending money out of the balances in India, but at the same time I think you said, in answer to the Chairman, that the amounts which have been given were enough in recent years, and that one does not hear much complaint of a 7 per cent. or 8 per cent. rate?—Yes. We know there has been a certain amount of agitation in India as to the Secretary of State lending money here, and not lending it in India, and though we see no reason why the Indian Government should not lend its surplus balances for the benefit of trade, we do not think any very large amount of money would be required. We suggest that the money should only be lent to the Presidency banks, and that any people wanting money on Government paper, Port trust bonds, and the like, should then go to the Presidency banks.

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2992. What I was not clear about was the importance you attach to this measure?—I do not attach very much importance to it.

2993. About those very interesting currency figures* which you gave us, you got an average, as I understand, which is to be weighted, but at present it looks something like 62 per cent. in notes, 24 per cent. in silver, and 14 per cent. in gold?—That is so.

2994. One should not be misled by percentages which are taken only from headquarter centres?—But these are large branches and small branches mixed up together.

2995. You would not say that, as a matter of fact, taking the total circulation of currency in India, anything like two-thirds of it was in notes, would you?—No, I should not.

2996. Mr. Fraser, for instance; said the whole of the jute trade is financed with actual rupees, and practically the whole of the rice trade in Burma is financed with actual rupees?—Mostly in rupees. (Mr. Fraser.) That is so far as the actual buying in the districts is concerned.

2997. That is what I meant. You do not mean to imply that these statistics which you have got from your centres in any way reflect the composition of the total currency of India?—(Mr. Toomey.) No. (Mr. Fraser.) They are certainly not meant to do so.

2998. About what you said with reference to the gold mint, there is only one point I wish to put to you: What one is trying to get is currency, is it not, and that in the main is silver currency, namely, rupees?—(Mr. Toomey.) Yes; the main currency of India is silver.

2999. If you have got a time of bad harvests and so on, the currency for the time being is redundant?—Yes.

3000. But suppose you have a prosperous season and there is a great demand for currency, then your exchange banks are bringing money into India from wherever you can get it, by Councils, or sovereigns from Australia?—In a prosperous time, yes.

3001. From wherever it happens that that method of bringing money is cheapest?—Yes.

3002. Might it not happen that the cheapest method of getting gold in order to get rupees was coining the bullion in India itself?—No. We could not get at that; that would be no use to us. We should have to remit out.

3003. If you had a mint in Bombay?—We have a mint in Bombay.

3004. If you take gold to the mint and get it coined into sovereigns, you could then take those gold coins to the Currency Office and get rupees?—(Mr. Fraser.) I do not follow that. Are you assuming that we would import gold bullion, or that we would get the gold bullion that is hoarded by the people? Do you assume that the banks would import gold bullion and tender it to the mint?

3005. Possibly?—(Mr. Toomey.) And are you speaking of an adverse season?

3006. No, I am speaking of a good season?—(Mr. Fraser.) Why should we take gold bullion to the mint? If we did so, there would be a great delay. If you take gold bullion to the mint here, you may have to wait a week, a fortnight, or a month, it might be six months possibly.

3007. Then that might not on occasion be the cheaper method?—I should think as a rule it would not be the cheaper method; I should think as a rule it would not pay.

3008. But it might occasionally?—It would be very exceptional; for instance, if by any chance, owing to the rates being favourable in Africa and various other conditions being favourable, you might possibly be able to divert South African mining gold to Bombay. Many years ago when I was in Calcutta, I diverted a large lot of gold from Japan to Bombay, because in those days the Government took gold yen, but they have since found that it did not pay them, and they will only take sovereigns and half-sovereigns now.

(Mr. Toomey.) In the ordinary way the only gold which the Indian mint could look forward to getting is the local gold produced in the country.

3009. At the mines?—Yes.

3010. What about the other bullion that is in the country, could you not get some of that?—No, the people would retain their gold, and they would not send it to the mint. They can afford to keep their little bits of gold.

3011. Is there not a lot always passing through the hands of these dealers in bullion and so on?—No. We sell a large amount of bar gold in the course of the year, as we ship it every week. These bars are hoarded, and they would remain hoarded. The people would not take those bars to the mint. There would be nothing to be gained by it. They buy this bar gold, they do not want sovereigns, and they retain the bar gold.

3012. What are all these dealers in bullion doing with it?—They will cut a 10-oz. bar into half a dozen pieces, and they will sell that gold to the small people in these little pieces. Those pieces are made into ornaments. That gold would not go to the Indian mint.

3013. Then it is not your opinion that in a favourable season there would be any amount of gold coming out that would be available for coinage in India?—No. (Mr. Fraser.) Our experience is the reverse—that in a favourable season gold disappears, because the people are prosperous and are able to hoard more.

3014. (Sir Robert Chalmers.) Famine might bring it out?—It might; it has in the past.

3015. (Mr. Gillan.) About the reserve; you say in your memorandum that you are not in favour of the retention of the silver branch; I just want to put in two reasons that were given us by Mr. Abrahams for the retention of that branch. He said for one thing it operates as an extra reserve against the necessity of coinage?—(Mr. Toomey.) I can understand that; in fact, it is an emergency reserve.

3016. It is an emergency reserve, he said. Secondly, he said, it is a useful method of obtaining transfers between England and India in the case in which the Treasury balances are insufficient, because, he said, the next method of making transfers in that case would naturally be the Currency Reserve; but that would have the effect of earmarking gold in England, and it might so happen that the market conditions were against that sort of operation. I want to know what you think of those two reasons?—One is that it is acting as an emergency reserve?

3017. Yes?—You might have a certain amount of silver as an emergency reserve, but we say it ought not to be kept in the Gold Standard Reserve. The Gold Standard Reserve should be in gold or gold securities. If you want a reserve keep it somewhere, but do not keep it there. (Mr. Fraser.) It simply means that having these six crores in the Gold Standard Reserve in coined rupees, you have so much less in the currency reserve, and we argue that the proper place for the rupee is the Currency Notes Department and not the Gold Standard Reserve.

3018. How could you, as a matter of fact, decrease the possibility of holding gold in the currency reserve?—It does not matter much from that point of view. When you are estimating your requirements, I assume the Government of India takes into account that they have so many rupees in this extra fund. What is the object, then, of having them in that fund?—They might just as well be in the Paper Currency Department.

3019. Would not the amount of gold in the currency reserve be proportionately decreased if you had to hold six crores more of rupees in the currency reserve?—Not exactly, but take the two together. At the present moment there are 17 crores in the currency reserve and six in the Gold Standard Reserve. Do you want the six or do you not; if you do not want them, then 17 crores is enough.

3020. The arrangement is that we should start the busy season with 18 crores in the currency reserve and six crores extra in the Gold Standard Reserve?—Then start the season with 24 crores, and there is an end of it.

* See question 2763, &c. *supra*, and Appendix XVIII, pp. 541-2.

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[Continued.]

3021. In the currency reserve?—Yes.

3022. Is the amount of gold that you can hold in the currency reserve not reduced—that is what I am asking?—(Mr. Toomey.) You would have to reduce it. (Mr. Fraser.) If you consider you require as much as 24 crores of rupees to start the busy season with.

3023. You do not actually gain anything in gold, taking the two reserves together, do you?—(Mr. Toomey.) No. (Mr. Fraser.) The gold in the Paper Currency Reserve is not earmarked, and, as I have said before, it has a tendency to slip away when it is wanted; but gold in the Gold Standard Reserve cannot slip away—it is there.

3024. That I quite understand, and I have only one more point about that. The idea when the arrangements were last made about this Indian branch was that we should start the busy season with this distribution of the actual reserve, and that six crores of rupees in the Gold Standard Reserve during the busy season should be allowed to run out and be replaced by gold taken from the currency reserve, so that nominally by the end of the busy season those six crores might be converted into gold?—It would be a favourable opportunity to transfer it then to the Gold Standard Reserve.

3025. What I put to you is that the presence of silver in the Gold Standard Reserve under that arrangement was confined to the busy season, and the probability is that by the time the slack season arrives, which is the time that you require gold, you have the gold there?—(Mr. Toomey.) But that six crores would stand in the Gold Standard Reserve for years.

3026. I was speaking of an arrangement that was made recently with regard to this; I do not know whether that arrangement would in any way modify your objection to the system?—(Mr. Fraser.) I think not, because we feel that the Gold Standard Reserve should be in gold, and so held that it cannot possibly disappear as it would or might in India.

3027. About the extent of the reserve, there is only one question I wish to ask. I think you said, Mr. Toomey, that the famine in 1907-8 was a small one?—(Mr. Toomey.) Yes.

3028. On what grounds did you say that?—I should say rather that the requirements in connection with exchange homewards were comparatively small.

3029. How do you judge of that?—Do you not speak of the famine of 1907-8 as comparatively small?

3030. I do not think that was the view that was taken by the Government of India, and that is why I am more particularly asking you about it. There was a complete failure of the rains in India and the area of the famine was very extensive; I think it covered the Punjab, the United Provinces, and the Central Provinces?—I made no point of it.

3031. It is rather important, because this period has been given to us by Mr. Abrahams as a crucial example of what we may require?—Of what our requirements might be in the way of gold?

3032. Yes, and that we should be guided by the experience of that season?—I think the Indian Government lost about eight millions in that period in the way of gold.

3033. (Sir James Begbie.) Out of the Gold Standard Reserve?—(Mr. Fraser.) They lost a great deal more in the way of actual gold in the country.

3034. (Mr. Keynes.) 17 or 18 millions altogether?—(Mr. Toomey.) You cannot tell possibly how much would be required under similar circumstances in the future.

3035. (Mr. Gillan.) How far do you say that is a good example for our guidance?—It depends upon the severity of the famine. One cannot tell what the Indian Government would lose in the way of gold; it is impossible to tell. If there was a famine in the second year, it might be the Indian Government would lose a very considerable amount of gold, but how much no one could tell.

3036. (Sir Shapurji Broacha.) You cannot buy gold in India except to export, can you? When we think it is cheap enough to buy, we buy it, but we only buy it to export, do we?—We do what we like with it.

3037. You have very little money to buy gold with except for export?—There is no doubt if we did buy gold in India it would be for export.

3038. And you would not be exporting it if you sent it to the mint, and if it always went at 1s. 3½d., it certainly would not pay?—It certainly would not pay to buy gold and send to the Mint.

The witnesses withdrew.

Mr. O. T. BARROW, C.S.I., called and examined.

3039. (Chairman.) You come before us as a representative of the Government of India, I think?—Yes.

3040. Would you kindly tell me what your position is?—I am now retired, but I was for some time Accountant-General of Bombay, I was Comptroller-General for about four years, and I acted for a short time as Secretary in the Finance Department.

3041. In recent years, the Indian total balances have reached very high figures, I believe?—That is so.

3042. What has been the reason for that?—It has chiefly been due to the excess of net revenue over the estimates, but there was also a very large loan, I believe, taken in 1909-10 in advance of requirements—that is as I understand things—and the effect on the Indian estimates was rather intensified by estimating for a high balance at home.

3043. To that extent the high balance was intentional?—It was to the extent of the home balance. I take it that the home balance was estimated above the normal; the home balance being about four millions, I think they estimated for over eight millions in 1911-2 and over six millions in 1912-3.

3044. For what purpose did they do that?—The explanation is given in the memorandum on Indian balances (Cd. 6619).

3045. And you do not wish to add anything to what is there said?—There are one or two points in it which I do not understand, but I am really not in a position to criticise it.

3046. As regards the balances in India, do you think that they might be used with greater advantage to Indian trade?—Do you mean utilising them by loans?

3047. Yes?—I do not think it is very practicable to use the Treasury balances in that way, at least it is quite practicable to do it to a small extent, but to any very large extent it would be dangerous. You cannot always count upon them for one thing, and for another thing you cannot always make them available soon enough. Our balances are raised by the revenue collection, and the heavy receipts begin to come in as an ordinary rule in January. So you could not make your balances always immediately available. They are collected in a large number of sub-treasuries and places in the outlying provinces. It would be very difficult, therefore, to make all the balances available before the end of January anyhow. If the trade demand was very heavy and the bank rate rose very high in December and the early part of January, as it sometimes does, you would find it difficult to meet any large demand for a loan. After that, in February and March in normal years you could do so, but the point is that a year might not be normal and you might find yourself in difficulties. I think that is one of the main reasons against it, because trade would be depending upon an uncertain element. Otherwise I cannot see any objection to it, leaving out of question, I mean to say, such considerations as, for instance, its possible effect on Council bills. Leaving all that out of consideration, I think you could lend

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a portion of your Treasury balances, but I do not think that it ought to be done, because I do not think trade ought to get to rely upon it.

3048. What is the possible effect on Council bills to which you refer?—Some people think it would have no effect at all, and I myself doubt whether it would have any serious effect as regards the amount of Council bills to be brought out, but I can see that it might as regards the rate at which they were sold, because it is possible that if you gave a loan it might pay somebody to take advances on loan instead of bringing out transfers at a time of high rates, and therefore you might possibly get a lower rate for your Council bills later on.

3049. You might get a lower demand?—Not a lower net demand on the whole year, but a lower demand at a time of high rates. At present a great many remittances are made by means of telegraphic transfers, and ordinarily in the busy season the rate for telegraphic transfers is very high, I think about $1s. 4\frac{3}{4}d.$ If you postponed taking Council bills until the demand was less and meanwhile took an advance, I can see that it might affect the rates at which Council bills were sold.

3050. Instead of getting an average rate as at present, high at one period of the year and low at another period, you would reduce your rate, you think, to the level of the times of low pressure?—I do not go so far as that, but I think it might have an effect in getting a less high rate. I know it is a difficult thing to say exactly what effect it would have, but I think that you might, by postponing the urgency of the demand, interfere to some extent with the rates you obtain. It seems to me that if you could postpone taking Council bills at the time of high rates until the Secretary of State was more or less obliged to sell, you would be able to get them for a lower figure. I may be wrong about that.

3051. Do you think that the Government of India could afford to keep lower balances than they have been doing of late in India?—No, I should not think so; on the contrary, it has been rather Government's policy to keep higher balances than heretofore. We found in the old days that we had great difficulties. We used to try to work to a minimum balance of about 8 crores or $8\frac{1}{2}$ crores, and it was found to be difficult. We had to be making constant remittances, and altogether it was a troublesome business. It was agreed to increase gradually that minimum balance, and I think the figure now is something like 11 crores—I am not sure whether 11 crores or 12 crores is our minimum balance now at the time of greatest pressure at the end of November.

3052. On the whole you definitely prefer that the Government should not make loans from its balances?—I should prefer that it should not make loans from its Treasury balances.

3053. Would you make loans from any other sources?—There are two other sources. There is the Gold Standard Reserve, Indian branch, and there is the Paper Currency Reserve. The Gold Standard Reserve, Indian branch, might possibly be thought to offer a source for advances if your currency silver was so high, or the balance of silver in currency was so high, that there was no prospect of having to use the silver part of the Gold Standard Reserve during the busy season. It would be possible to advance from the Gold Standard Reserve, but it would not be advisable, because the very reason for which the Gold Standard Reserve is kept in India is to give the Secretary of State an alternative method of drawing Council bills, and if you once reduce the silver in the Gold Standard Reserve you deprive him of that advantage.

3054. Then you would eliminate the method of lending from the Treasury balances, and you would eliminate the proposal to lend from the Gold Standard Reserve?—Yes, I would, entirely.

3055. What do you say about lending from the Paper Currency Reserve?—I think with proper arrangements that is quite possible. Of course it is not practicable at present; in fact the law would not permit it as it stands at present, and also the way in which things are worked now would make it rather

difficult. At present our investment is a fixed figure laid down by the Act, and whenever we alter that fixed figure we have to alter the Act, and before we do so we consult the business and banking community. That I hold to be a fundamental mistake; I do not think it necessary, and I think we can substitute another plan for it which would enable us to make part of the paper currency balances available for the use of trade.

3056. Will you develop what is in your mind?—My idea is that we should take power once for all to invest a certain percentage of the circulation. You might invest, say, 40 per cent. of the average gross circulation, or you might take it any way you like, either gross or net. Of course if you calculate upon the active circulation, you can afford to take a higher percentage than if you calculate upon the gross; but calculating it upon the gross circulation you may take, say, power to invest 40 per cent. of the gross circulation, though you need not work up to that figure. You could then make provision in the Act that part of your investment should take the form of advances on temporary security. You could then keep sufficient in hand to advance. By that method of allowing us to invest up to a certain figure, we could always, even at the present moment, do it and still leave room for gold and silver. At present the objection to investing a large percentage of the currency reserve is that it would not leave enough room for gold and silver—at any rate, it would not have done so a few years ago.

3057. Leave enough room where?—You would have to leave a sufficient amount of silver to meet the wants of trade. At present that is actually fixed at 18 crores at the beginning of the busy season. Then you want a certain amount of gold for the public demand in India. We would also like to have a place in which we could put gold in London when we want to sell Councils otherwise than from the Treasury balances. We ordinarily sell Councils against our Treasury balances until we have reached the limit up to which we can afford to pay in India. If you want to sell more, there are only two methods of doing it—either by placing gold in the currency reserve in England or drawing against the Gold Standard Reserve branch in India, which is a very small thing, only six crores. So you will have to have room in your currency reserve for the gold and silver that is likely to be there. If you invest, say, 60 per cent. of the gross circulation, which would be 36 crores, taking 60 crores as the present total circulation, you would only have 24 crores left, which would not be enough. If you invest 40 per cent. of the present circulation of 60 crores, that would be 24 crores, leaving 36 for gold and silver, that is to say, 18 for silver and 18 for gold, but 12 millions sterling is rather a small amount of gold. If Government has power to vary its investments within the limit of 40 per cent., Government could certainly be trusted to see to it that there is enough room left for gold, and, as the circulation increased, there would be more and more room for gold and silver. That would be, roughly, my idea. Also it would be open to the Government to keep two crores of this amount, or whatever amount was considered necessary—three, if you like—in hand, for immediate advances.

3058. When you are speaking of investments, you are speaking, I take it, both of permanent investments and of temporary advances?—Quite so.

3059. To the extent to which you could afford permanently to invest, you would be losing interest, would you not, by reserving a portion of the money for temporary advances?—Yes, that is true.

3060. Because the temporary advances would only be taken during a small portion of the year?—That is so.

3061. To whom would you make these temporary advances?—That I could hardly say. Of course when you are dealing with the currency reserve, one is dealing with rather a ticklish thing. The whole purpose of the reserve is to ensure the encashability of notes. I should personally be opposed to advancing it to anybody except the Presidency banks.

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3062. What sort of security would you require from them?—I would hardly like to say. I suppose that the security which we could take from them would be principally Government Stock. It would have to be laid down what would be accepted.

3063. Port bonds?—It might be even those.

3064. (*Sir Robert Chalmers.*) Are they guaranteed by Government?—Bombay Port bonds are not, nor are the Calcutta Port bonds, but the Bombay Improvement Trust bonds are.

3065. A Port bond then would be a non-Government security?—Yes. I could hardly express an opinion as to what would be exactly the safe thing to take, but I presume that those could be taken.

3066. (*Chairman.*) Would you propose any other alterations in regard to the Paper Currency Reserve besides this general extension of the power to invest of which you have spoken?—With regard to the reserve, no. I think the present arrangement by which a small portion in gold is kept at home is a good one. As regards the Currency Act I think perhaps there might be further alterations. At present we only pay notes at certain centres, that is to say, at the Currency offices; it is possible that you might extend the number of places at which they are encashable, and that might be an advantage. Also you might perhaps increase the value of the notes you pay; for instance, we used only to pay on 10-rupee notes, but now we have gone up to 50-rupee and 100-rupee notes, I think. If you increase the number of places at which you pay them, which I think would be a benefit—I think the number might be extended very gradually—that would mean keeping a larger coin reserve.

3067. If you wanted to extend the number of places at which notes could be encashed, who would act as the agents for the Government of India in those places?—It would be done at certain main centres of the Government treasuries.

3068. You were not contemplating using the banks, then?—No, except so far as they are the custodians of the Government treasuries at those places.

3069. The use of notes has been very much on the increase, has it not?—Yes, very much, and that has principally been the case since we extended their convertibility.

3070. So that possibly if you could still further extend their convertibility, you might still further extend their use and popularity?—Yes, I think so.

3071. You think that is a desirable thing to do?—Undoubtedly.

3072. You do not belong to the school which thinks that it is desirable to get as much gold into circulation as possible?—No, I do not; I think it is more important to circulate paper.

3073. You regard gold as a wasteful form of circulation?—That is so.

3074. Do you attach much importance to the amount of gold in circulation as an aid to the Gold Standard Reserve for the maintenance of exchange in the case of a crisis?—No, I do not, not to the gold in circulation.

3075. Do you think that the gold in hoards would give much support to exchange in a crisis?—I should not think so.

3076. As regards the location of the Paper Currency Reserve, are you satisfied with its present distribution?—Yes.

3077. Are you satisfied with its composition?—Yes; except that there is the general question of how far you can prevent the gold in the Paper Currency Reserve accumulating, and whether its accumulation is a bad thing or not. At present we have no means, and I do not think we ever will have any means, of stopping this accumulation. Even if the plan, which I was outlining, of investing a percentage instead of a fixed figure, were adopted, that would not prevent the accumulation of gold. It would still go on, and it must go on, apparently. There is a tendency in some years for the gold that comes into the country to stick in the Paper Currency Reserve and not go out. During the last few years a large portion which has come in has stuck in the Paper Currency Reserve, and, of course, the lowness of our investment is

the reason why the amount is bigger than it otherwise would be. It is, I think, desirable to try to check the absorption of gold. I know some people think not, but I am inclined to think that, on the whole, it is desirable to check the excessive importation of gold into India. Still, that accumulation of gold, if it is an evil, seems to be an evil which we cannot prevent, whatever we do with the Paper Currency Reserve, because it is no use coining silver before it is necessary.

3078. I think a good deal of silver is kept in the Gold Standard Reserve whilst gold is accumulating in the Paper Currency Reserve; would it not seem natural that an exchange should be made, and that the gold should be put into the Gold Standard Reserve and the silver be received in exchange by the Paper Currency Reserve?—Yes, it would if it were not necessary to keep the silver in the Gold Standard Reserve for another reason. The reason is that we want to have an alternative method for the Secretary of State to draw against. I do not see how that reason can be got over at present; eventually, I think, it can be got over, but not at present.

3079. I do not quite follow that?—It all depends upon the policy we follow as regards Council bills. If we are going to continue the policy, as I imagine will be done, of drawing Council bills beyond the amount of our own home charges, then as soon as the Treasury balances in India cannot suffice to buy Council bills, you must draw against the Paper Currency Reserve—there is no other way. It is sometimes inconvenient to do so, because you do not want to take gold off the London market. When that occurs, the only means of drawing you have got is against the Gold Standard Reserve, whereby, when you receive the money for Council bills here, you can immediately invest it, and so the gold does not go off the market.

3080. Does that not come back to the restrictions which are at present placed upon the use of the Paper Currency Reserve?—Yes. If it was safe to make temporary investments of the Paper Currency Reserve and we had a percentage, as I have suggested, within which we could work, I think you might do away with the Indian branch of the Gold Standard Reserve, because you could equally invest your Paper Currency Reserve. My doubt is whether you will find sufficient securities of a suitable character in the London market—I do not know about that. If you do find sufficient securities of a suitable character in the London market, you could then place your temporary currency investments. Of course they are on a different footing to the Gold Standard Reserve investments. What might be safe for the Gold Standard Reserve might, perhaps, be objected to from the point of view of the Paper Currency Reserve. I do not know; it is only my idea that there might be a distinction made.

3081. What is the distinction which you think might be drawn?—Only because of the nature of the Paper Currency Reserve investment. It is true that it is a reserve against our notes, and it is what the public look to for the repayment of their notes; we are in a fiduciary position there. But in the case of the Gold Standard Reserve we really can do what we like with it, it is only a matter of public opinion, and we could invest it even in rubber shares if we liked. We should not like to do that with the Paper Currency Reserve. That is my meaning, broadly.

3082. The obligation of the Paper Currency Reserve is to provide rupees for all notes that are presented for payment?—Exactly so.

3083. Must it not hold rupees rather than gold?—We are not obliged to pay notes in rupees; we can pay them in gold if we like, gold now being legal tender. Of course, we should not think of taking such a step, except under some emergency, but there is nothing to prevent our doing it.

3084. If the public present those notes in large quantities, exceptional quantities, let us say, is the demand likely to be for gold or for rupees?—The demand is likely to be for rupees.

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[Continued.]

3085. And what you would have in your reserve to meet that demand for rupees is gold?—Not quite, because of course anything like a demand of that sort, when it becomes excessive, is foreseen, and we can always convert our gold into silver sufficiently quickly for that. That is why we keep a certain balance of silver to enable us to do so.

3086. Should I be right in saying that when the crisis comes what will be wanted is rupees and not gold?—Yes.

3087. And that the gold is only valuable because it can command rupees?—Yes.

3088. It does not seem to you to be, under those circumstances, desirable to have the rupees there apparently?—Do you mean to coin in advance of the actual demand?

3089. Instead of holding gold in the Paper Currency Reserve, to hold your reserve in rupees?—But gold rushes into the reserve. Do you mean that we should not accumulate, and that as soon as we have gold we should send it back again and coin rupees?

3090. I meant to suggest that you should exchange the gold which came into the Paper Currency Reserve for the rupees which were in the Indian branch of the Gold Standard Reserve?—That is after all only a very small proportion; that is only 6 crores, and as I explained before we cannot do that unless we have some alternative method for drawing Council bills.

3091. Are you in favour of the opening of a mint in India for the coinage of gold?—For the coinage of sovereigns or of other gold? There is some distinction between the two. For the coinage of sovereigns I should think it was quite unnecessary, and I do not quite see how it is going to be done. The amount of gold that would come from the Indian supply is so small that it would not be worth while doing it merely for that I think, and to import gold to coin it in India seems to me rather absurd if you coin it into sovereigns. Of course any other class of coin that you are going to introduce would stand on a rather different footing, because, although we can get sovereigns enough when we want them from Australia or England, we cannot get the other coins, and therefore if you are going to have the other coins I think the mint for coining them should be in India. That would be the most convenient place probably.

3092. Do you see any advantage in having a gold rupee coinage?—No. A great many people think that the 15-rupee unit, the present sovereign, is too high to meet the general native taste, but that is only a conjecture. I think myself that it is mere conjecture as to how far they would take 10-rupee pieces more freely than they do sovereigns. Personally I should rather doubt it, but it might be tried. There are certain objections, of course, to coining gold at all in India.

3093. Would there be any advantage in trying it?—I should call it rather a disadvantage myself, because it seems to me that it is not necessary in a way to force a taste for gold on the Indian public. I cannot help thinking that if you did do so you would increase the gold drain on Europe, if that is considered a bad thing. If you introduce gold into the currency, I think it is clear that you would require more gold altogether in India.

3094. Of the gold that you might introduce into the currency how much, do you suppose, would remain in currency and how much would take the form of ornaments or go into hoards?—I think it is almost impossible to say; that is merely conjecture again. The natives might like the 10-rupee piece to use as currency, and again they might prefer it for the purpose of hoards; no one knows what they would do. Some people think that they would prefer a 10-rupee piece merely for hoarding purposes rather than the sovereign, because it would be a lower unit. If they did and if it increased hoarding, you would again get a further drain upon England. Whether they did or did not, if it went into the country and stayed there, it would mean a further drain of gold from England. It must mean a further drain, whichever it is. Of course it might have no effect, as they may not exhibit any preference for a 10-rupee piece.

3095. I will not pursue the effect on England, but suppose it did mean a further drain on gold from England, would you say that that must be the governing consideration for India?—Yes, I think so. My own feeling is that anything which lessens the world's supply is bad for India, that is to say, if you encourage the gold to go into hoards.

3096. Anything which lessens the amount circulating, you mean?—Anything which lessens the amount of gold available for exchange. I think that does affect Indian trade as it does affect every class of trade, and I cannot help thinking that it affects India as a debtor country perhaps more than other places.

3097. Are you right in describing India on the whole as a debtor country?—India is a debtor country in a way, that is to say, we have an outside loan on which we have to pay interest. Any scarcity of gold seems to me to affect, and must affect, us deleteriously. Also in the world's market any want of gold does affect the demand for produce, and therefore must badly affect India. So there seem to be two ways in which it affects India badly.

3098. I turn for the moment to the Gold Standard Reserve; do you criticise the present location of that reserve?—No, I think it is right.

3099. You hold it is right that the major portion should be kept in London?—I think undoubtedly so.

3100. Will you give me your reason?—It is no use, really, in India. You want the gold at home when a crisis comes. If you have it in India, you would have to send it home.

3101. Would you retain a small proportion of it in India?—Not in gold.

3102. Would you in silver?—In silver, yes. Even much of the gold in the Paper Currency Reserve I would keep here. Because in times of adverse trade we use the Paper Currency Reserve gold at home as well as the Gold Standard Reserve gold, so that the two things are rather interlocked. I think they are both more useful in England, and I also think that actual gold in England would be more useful than securities.

3103. Would you think it necessary that the whole of the gold reserves should be kept in actual gold?—No, I do not think it is necessary; but I think if it could have been done without other objections it would be a good thing.

3104. On striking a balance between advantage and disadvantage, what do you say?—I think the present system is best, but I think there was a good deal to be said for what the Government of India said on that point. They considered gold was more useful than securities in a time of crisis, and so it is because gold then goes into the market.

3105. I gather that you would deprecate holding any part of the gold reserve in long-dated securities?—Yes, I would.

3106. Or in any securities with no date of redemption?—Yes, I would.

3107. Would you fix any proportion which ought to be held of actual gold, or any sum?—I would not. I think it is a difficult thing, but I think that the present arrangement of about 5 millions is a very reasonable one.

3108. On the condition that the rest is held in short-dated securities?—I think that is the preferable plan, certainly.

3109. (Sir Robert Chalmers.) Would you wish to qualify your remark about the debtor country a little further? India has debts, but on the whole she is a creditor country, is she not?—Yes, that is so. I was thinking more of the fact that we have an external loan than of anything else.

3110. You have got to pay 20 millions in this country; that was in your mind?—That was in my mind, and the interest on the loan. Of course the more you appreciate the gold, as I suppose you would call it, the worse it is for India, because then India has practically to pay more in interest charges on her debt.

3111. On the whole, there is a balance of trade on the average of years in favour of India?—Yes.

3112. That is an essential fact?—Yes.

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3113. Without that India would be in a very parlous position?—Quite so.

3114. You are speaking, therefore, in reference to a part of India's position and not to the whole when you speak of her as a debtor country?—Yes, that is so.

3115. You said it is an elementary question, but I should like it, if you would, to be amplified a little further—that you thought the gold in the Gold Standard Reserve should be kept in England?—That is so.

3116. Would you mind amplifying your view about that somewhat?—When an adverse trade balance occurs people wish to pay silver in India and receive gold in England.

3117. Because the settlement is in gold at home?—Yes.

3118. This is the place where they have to make their payments?—Yes.

3119. And consequently you keep the gold here?—Yes.

3120. Would you attach any importance to the view which I believe is held in some quarters that it would be a fortifying of the position to keep the gold in India in whole or in part?—I cannot see how it could be. On the contrary, my own impression is that there is a great deal to be said for the view that even the paper currency gold in India is of no use there at all, and that when a crisis occurs we should send it all home and refuse payment of gold in India altogether. That view has been taken, and I do not think it is altogether wrong; but I do not know how far public sentiment would stand it.

3121. Have you considered at all the question whether it would be desirable, with a view to people's opinions and feelings, to have any statutory sanction governing the Gold Standard Reserve?—No, I have not considered the point.

3122. There is, of course, with the Paper Currency Reserve a special statutory sanction?—Yes.

3123. But you have not considered the point, you say?—No, I do not think I have.

3124. Coming now to that suggestion of yours about a certain amount of the money in the Paper Currency Reserve being made available for purposes of advances to trade in India at certain seasons; the fiduciary portion of the Paper Currency Reserve is in certain securities, is it not?—Yes.

3125. Definite securities, Government of India securities?—Yes, the Indian portion.

3126. If you were to take power, in accordance with what I understood to be your scheme, to lend, we will say, to the Presidency banks a portion of what happened to be in cash, but which you regard as being an investment portion, you would require the same type of securities to be deposited by the Presidency banks, I take it?—Yes, that is so.

3127. That is to say, Government securities?—That was my idea.

3128. Let us see what would be the practical effect of your scheme. You would have power to invest up to a certain figure?—Yes.

3129. But you would not invest up to the hilt?—That is so.

3130. You would keep a little sum which you might call x for immediate use uninvested and remaining as a surplus, which would be a superfluous amount of cash?—That is so.

3131. You do that, keeping it in cash without earning interest, for the major portion of the year with a view to financing trade through part of the year?—Yes, that is true.

3132. Therefore, looked at merely as an engine of profit and loss to the Paper Currency Reserve, it would mean this, would it not, that you would be earning no interest for the best part of the year and you would be earning interest for a portion only of the year?—Yes.

3133. So on the whole you would lose in interest?—That is true; but if you will allow me to say so, there is no alternative. What I mean is that you lose now, and under any system you must lose. I am trying to make that loss as little harmful as possible by giving the trade the benefit of it. Whatever system is adopted for the investment of the currency reserve,

I should hold there must always be a balance uninvested which could not safely be invested. It is so under the present system, and if you fix a percentage it must be so, because you must guard yourself by being a little below what would be the safe percentage; although you would be holding an amount which you could invest you are doing so now, and you will do so, I should think, under any system.

3134. But you would be doing it a little further?—You would be doing it with your eyes open—I do not think it would be more.

3135. (Chairman.) You would fix an amount which it is safe to invest?—Yes.

3136. I understand you to say, and I quite agree with you, that that amount would have to be fixed at something within the limit of safety?—Yes, it would.

3137. You have two alternatives before you. Having fixed that sum x as being capable of investment at a particular period of the year, you may invest it for three months or you may invest it for twelve?—Yes.

3138. I understand your suggestion to be that it should be invested for three months for the benefit of trade?—Yes.

3139. Instead of for 12 months which would be to the greater benefit of the fund?—Yes. Of course it depends on the light in which you look at it. I look upon it that the percentage which we shall fix for the investment shall be high enough, but not too high. If you fix that percentage you cannot work up to it every year, as it would not be safe. Say you fixed 40 per cent. of the average circulation of the previous three years; well, the next year you again change that to 40 per cent. of the average circulation of the then previous three years; and supposing that the circulation of the last day of the year is a great deal higher than the average of the previous three years, then you will really have got more than 40 per cent. of your circulation uninvested.

3140. I think you do not quite see the point I was trying to put. Whatever the sum which you fix as being safe to invest, is it not a necessary part of your proposal that a portion of it should be invested only during the busy months of the year when trade requires assistance?—Yes.

3141. Whereas, if it is safe to invest it, you would have the opportunity of investing it for the whole year?—I quite see the point; but it seems to me that you could invest temporarily even beyond what it is advisable to invest permanently.

3142. (Sir Robert Chalmers.) The Paper Currency Reserve is, as you said, fiduciary?—Yes.

3143. And the interests of the Paper Currency Commissioners, are they, or Board—of the authority regulating that reserve—is to safeguard their notes?—Yes.

3144. That and that only?—That is so.

3145. So far therefore as the object under your scheme is to lend money for the financing of trade, it is, would you agree, to some extent a departure from the purely fiduciary position of looking after the interests of the notes?—Yes, that is so; but of course we already use the Paper Currency Reserve in other ways than merely securing the encashment of the notes, that is to say, we do use it as a means of helping trade in half-a-dozen different ways. As long as there is no interference with the primary object, I do not see why we should not do it. There is no interference with the primary object of the reserve which is the repayment of notes, if we give, say, a transfer from one place to another through the Paper Currency Reserve as we often do, that is, if we give banks and merchants the option of paying a certain sum into the reserve in one place and taking it out at another.

3146. That is machinery, is it not?—It is a part of the business with the banks. We do not want it done for our own purposes, but we do it to assist them. We do not particularly want the currency funds moved from one place to another at the time we allow it; but we do allow it because we can allow it without inconvenience and for the purpose of helping trade. In the same way when we sell Council bills against currency reserves we are using the currency reserves really as a

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means to assist trade, because it does not interfere with the safety of the issue, and it has no effect upon that one way or the other—therefore we allow it. Of course, if this scheme of allowing loans were in any way to affect the safety of the issue, I should say, Do not do it; but if it does not affect the safety of the issue, I see no harm in taking steps which would make this currency reserve useful instead of useless; that does not seem to me to be objectionable.

3147. So far as you lose sight of its fiduciary interest, to that extent you are departing from your position as a trustee having in view purely the interests of the note issue, and you are acting as a general philanthropist for trade?—As far as we lose interest that does not affect the Paper Currency Reserve, because the interest is not credited to the Paper Currency Reserve but to the Treasury.

3148. The Paper Currency Reserve of India was modelled on the issue department of the Bank of England, originally, and it still retains a general similarity, I believe?—Yes.

3149. The Bank of England does not advance money from the issue department, does it?—No.

3150. To that extent, therefore, your proposal would be a departure from the parent system?—It is, undoubtedly.

3151. Have you considered whether it would be possible to put the Gold Standard Reserve under, perhaps, the same body as the Currency Commissioners?—The currency is not under a Board of Commissioners. I do not remember the wording of the Paper Currency Act; there is a Head Commissioner of Paper Currency, but there is no board, or anything of that sort.

3152. There is an authority; could that same authority also be in charge of the Gold Standard Reserve?—The two things are rather different, are they not? I do not exactly follow you.

3153. They are interlocked to a great extent in maintaining the gold standard, are they not?—Only because we make use of the Paper Currency Reserve for a purpose for which it was not created. The Paper Currency Reserve has got nothing to do with maintaining the gold standard, but we make use of it, just as I said we might make use of it for trade, for that, though it has got nothing whatever to do with that.

3154. (Sir Ernest Cable.) With regard to the criticisms which have just been passed upon lending money to trade from the currency reserve, of course the question of interest largely enters into the calculation; supposing, for instance, you were to lend for six months at 7 per cent. you would suffer no loss of interest?—Not if you could lend for six months at 7 per cent., but I do not suppose you could do anything of the sort.

3155. Still you might lend at a higher rate than 3½ per cent?—Undoubtedly.

3156. So the question of interest might not be such a very large item?—It might not be serious. That would depend on whether the trade took it. You must remember that in many years they might not touch it, and you might certainly have an infructuous balance. I think under any system we would always have some infructuous balance.

3157. Which you have now, you say?—Which we have now.

3158. I think you drew a distinction just now, in answering the Chairman's questions, between the purposes of the currency reserve and the purposes of the Gold Standard Reserve, which were quite distinct?—Yes. I say yes, but we really need not have a Gold Standard Reserve at all, though we must have a Paper Currency Reserve. I think the two things are rather different. I think the Paper Currency Reserve ought to be managed upon a stricter footing.

3159. Of course the object of the Paper Currency Reserve is to protect the note issue?—Yes.

3160. And the object of the Gold Standard Reserve is to protect the rupees?—That is so.

3161. Would the two together, speaking broadly, answer one and the same purpose, namely, to protect the entire currency?—I look upon them as rather

different. For one thing, we have a note issue which we promise to pay. You may say we have issued a promise to pay the rupees, but we have not done so definitely—we will do so, of course, but we do not pledge ourselves that we will pay the rupees.

3162. I was only leading up to this question, whether it would not simplify matters generally if both reserves were thrown together?—It would, and it could be done, but under present circumstances it is impossible because our note circulation is not large enough. It is quite true that the Paper Currency Reserve and the Gold Standard Reserve could be amalgamated and the whole thing worked with the Paper Currency Reserve, but not at present, because our circulation is not big enough.

3163. Do you mean your note circulation?—The note circulation is not big enough to enable us to hold both sufficient securities and sufficient gold. You must have sufficient securities plus sufficient gold to maintain your rupee standard, but we have not got enough. It is a simple matter looked at in view of the figures; and if you take the figures you will see we have not got enough. If we had enough it could be done, and I think some day it will be done.

3164. It is quite inconceivable, is it not, that there should be a run on the treasuries to change notes, because the bulk of the circulation is in 10-rupee notes and 5-rupee notes, which are scattered all over a large continent?—Yes.

3165. Therefore one cannot conceive an inconvenient amount of these notes being presented?—I think you can conceive of an inconvenient amount being presented. I think you will find that in some years the circulation has very largely fallen after times of famine. I think in 1897 and 1898 there was a very large fall in the circulation. It only amounted to a few crores, not to 50 per cent., or anything of the sort; still it was rather a large fall; I think it was from about 30 crores to about 23 crores.

3166. (Mr. Gillan.) Then you might have a political crisis in which the security of the Government was affected?—Yes, you might. Falls in the circulation have been, you might call them, serious, but not, of course, anything like what would be provided for outside the investment.

3167. (Mr. Gladstone.) I think you said that the Treasury balances, which used to amount to about 8 crores, are now 11 or 12 crores?—Yes, about 11 crores. That is, of course, at the minimum time of the year.

3168. Do you think that the very large number of treasuries established up-country are necessary now?—I have never thought about it, but I should think they were quite necessary.

3169. You have the railway and telegraphic facilities greatly increased; do you think that full advantage has been taken of those with a view to economising the balances and using them to the fullest extent?—Do you mean by reducing the number of treasuries?

3170. And the balances, by being able to move them more rapidly backwards and forwards to where they are required?—Even now we do not move the balances except as we require actual coin, and that is a very small amount. However many railways you have got, whatever the railway communication is, you would not do away with the frequency of remittances merely because you could send it by rail instead of by road, nor would the expense be much less.

3171. It would be much more rapid, and much more economical and much safer, would it not?—It would be much more rapid, certainly, but I am not sure about the other things. I suppose it would be more economical, but I have not thought about it.

3172. And safer; there would be less risk?—Yes. At the same time you must remember that the number of transactions tends to grow yearly. What was sufficient for our treasuries 10 or 15 years ago is no longer sufficient, because the number of transactions is multiplied and the expenditure is greater. You require larger balances for that reason, which might neutralise the effect of your increasing railways, and so on. I do not say that our balances are too low or too high, but at the time when they were raised from about 8½ crores to about 11 crores, it was rather care-

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fully thought over as to exactly what increase was desirable. I cannot give you the facts now because I have forgotten them.

3173. Was it gone into with a full knowledge of the different conditions that prevail now as compared with 20 or 30 years ago?—I think what was taken into consideration was not so much the altered conditions as what we found in actual practice was the trouble. We found it troublesome and expensive to be constantly moving, and I do not think we compared what the conditions and the means of transit are now with what they were then. What we principally took into consideration—I think it was about 1905 or 1906 that the increase was made—was the amount of trouble we had in moving funds, and the amount of care and trouble, and the number of telegrams, and so on, that the Comptroller-General and his assistants had to deal with. We found it was troublesome with such a small balance because funds were constantly wanted in a place where money was not available. We did not take the greater facilities of remittance into consideration as compared with what they had been 20 years ago, but what the trouble was that we were finding at the time.

3174. Do you not think if those facilities were taken into account, and also the extension of telegraphs, and so on, that much more frequent returns might be made to the central authority, and that that would lead to the economising of its balances which are still dealt with in watertight compartments without relation one to another, and in connection with which, therefore, there may be a considerable waste?—There might be, but that is not so. We already consider that we take all the advantage that we can of the means of transit and communication; and notwithstanding that, we found that it gave us a great deal of trouble and expense, and we thought we would lessen that by increasing the balance. We were quite aware at the time it was done that increasing it meant paying practically so much interest.

3175. Would it be possible to have a statement of some of the representative treasuries, small and great, showing the money going in and out, say for a week or a month? I do not know how the other members of the Commission stand, but I have not the slightest idea what goes on at these treasuries. It is a matter of negotiation now, is it not, between the Government and the Presidency banks very often as to whether or not the banks will establish a branch and so enable a treasury to be abolished?—Yes.

3176. Do you not think that the banks would be able to work more economically than the treasuries by combining banking with Treasury business?—Wherever it is possible for the banks to open branches they already do so. I do not quite see how that could be done to a greater extent.

3177. My experience is that the terms are not considered good enough often, and that the banks refuse?—I do not remember any case of a bank refusing because the terms were not considered good enough. I can remember cases of banks refusing because there was not enough business; and that is the consideration, I imagine, that principally operates with the banks when they are asked to open a new branch.

3178. Of course, that difficulty might be met by giving them, as I think is often done, some special terms for that particular branch?—Yes. We have given them minimum balances in certain cases.

3179. (*Mr. Keynes.*) Sir Robert asked you one question suggesting that your plan of temporary loans from the paper currency, though it might be useful to trade, would be made at the expense of the interest earned. I want to pursue that point a little. I understand your view is that from time to time you can invest temporarily more than you can safely invest permanently?—I would hardly say that, but I think you can invest temporarily more than you would pledge yourself to invest permanently.

3180. More than it would be wise to invest permanently?—Not exactly more than it would be wise to invest permanently, because I take the view that the percentage might be very much larger than anything

I have suggested with perfect safety; but I am doubtful whether we could take the step of actually publishing to the world that we were going to invest, say, 75 per cent. of our reserve, and I think Government would hardly care to face public opinion to such an extent. I personally think it would be quite safe to invest 60 or 70 per cent. of our reserve, but I do not think we should go so far.

3181. But you think that objection does not apply to temporary investment?—I think the objection does not apply to a temporary investment. My own view is that it does not make any difference whether you work to a percentage of 40 per cent., and allow the Government to vary its investments within that for temporary purposes, or whether you provide for the fact of temporary advances in addition to that.

3182. If you are investing temporarily money against the permanent investment of which there is no objection, Sir Robert Chalmers was obviously right?—Yes.

3183. But if you can invest temporarily money against the permanent investment of which there is some objection, of whatever kind, then perhaps there is an answer to his point?—I do not say that there is quite a satisfactory answer, and I do not pretend to give an entirely satisfactory answer. What Sir Robert Chalmers said—and my own view is that it is so, but it is my own personal opinion—was that we could safely invest temporarily, because it is more easy, for one thing, to withdraw a temporary investment than a permanent investment, and for another, you want to have some power of varying your investment within the limit which I have fixed as the minimum. One instance of that is this: you have an average circulation for three years, say, of 62 crores—I will give you a concrete instance; that is the present state of facts. That gives you an investment of 24·80 at 40 per cent.; suppose at the end of next year the circulation is found to be only 56 crores owing to a famine having occurred, or suppose it is only 48 crores owing to a famine having occurred, which is a quite possible event, then you will have got invested about 50 per cent. of your currency reserve, which a great many people would say is an excessive amount. Therefore you would have to have a proviso in your Act that if the investment exceeded a certain percentage—and in fact this was part of my proposal—of the circulation on the last day of the immediate preceding year, that amount of the investment should be withdrawn.

3184. You could withdraw it then more easily than if it were permanent?—That is so.

3185. I would like to put to you another reason in favour of a temporary investment—when a good season is ensured, reserves which were not superfluous so long as the nature of the season was doubtful become temporarily superfluous?—Yes.

3186. Therefore, if the Government keep their funds intact until a good season is assured and lend them on terms which would bring all that money back again by the end of the season, they could do that without running any appreciable risk of being caught short of reserves; whereas they could not have done that permanently, because a bad season might have overtaken them, when they would want the reserves. Would you agree to that?—I am not quite sure that I follow that.

3187. Say, that in November the character of the season was obvious; if you have funds then in hand to lend, well and good, you can be sure of the money coming back; but it would be very rash to have lent in August before you were certain how the season would turn out?—Yes, that is so.

3188. In those circumstances the Government could lend with the least risk to itself?—Yes, that is so.

3189. And at the same time it would be lending at a moment when funds were most useful to trade?—Yes, that is so.

3190. Would that be in your mind an additional reason for temporary investments?—Yes, I agree with you.

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3191. But that would not apply at all to permanent investments?—That is so, I agree.

3192. Do your proposals for the investment of the Paper Currency Funds apply to temporary investment in London as well as in India?—It was only in India that I was thinking of investment.

3193. You were not thinking of lending in London against Government securities?—Well, yes, I was.

3194. Both in India and in London?—Yes, both. What I was thinking of with reference to India was entirely as regards advances. I was thinking that we might also invest part of our currency funds not in permanent investments at all, for the reason I have just given to you, the facility of varying within the limit—

3195. In Treasury bills, for example?—Quite so. The two things are separate in my mind. I was thinking separately of advances made to the Presidency banks and of the possibility of investing some of our reserve here at home in temporary securities instead of permanent.

3196. They were also separate in my mind. Now I want to go to the point of the investments in London. If that were done, would there then be any reason against the suggestion made by the Chairman of abolishing the silver branch of the Gold Standard Reserve and taking all that into the Paper Currency and putting gold into the Gold Standard Reserve?—I agree to that.

3197. Would there be any objection to it?—I think not; and I anticipated that that would be done when we once got a high percentage and a really high circulation. The only question is whether at present it can be done. I have not examined into it. It is a question of figures. It depends on how much you can temporarily invest, does it not?

3198. Is it your opinion that the silver branch of the Gold Standard Reserve only exists, because the Secretary of State is not free to invest the Paper Currency Reserves temporarily?—It comes to that.

3199. That is another advantage, therefore, in having this power of temporary investment?—Undoubtedly. That was one of the advantages I thought of.

3200. It is simply because the Secretary of State cannot invest the currency money temporarily that it is necessary to hold silver in India separate from the paper currency silver?—That is so.

3201. In recent years by the universalisation of a number of notes the old circle system has been, in effect, largely abolished?—Yes.

3202. In your opinion is there any reason why the circle system should not be done away with altogether now?—I do not see why we should do it with reference to the very high notes like the 10,000-rupee notes.

3203. What would be the disadvantage?—They are not notes that pass from hand to hand. We have done it in the other cases for the convenience of the public; but if you include 10,000-rupee notes, that would merely mean paying for the traders' remittances, and in those cases the traders should pay the exchange. In Europe if you want to send money from one country to another you have got to pay the difference of exchange, meaning the cost of carriage, as I understand it—I do not know that I can explain the matter very well, but it should be the same in India. The Government ought not to take any risk of having to pay the cost of any remittance for the sake of trade, and there is no reason why merchants should not pay it themselves. If you universalise 10,000-rupee notes you are, with your eyes open, saying, we will pay all your remittance charges for you if you happen to use those notes. We took the risk in the case of the smaller notes because we considered the advantages to the ordinary holders, the small people, were so great as to overcome any objection to Government having to pay remittance charges; but it would not be so in the case of 10,000-rupee notes.

3204. Do you think that now the 100-rupee note is a universal legal tender it is not used for remittance?—I do not say that, but I think the advantages would be greater than any risk we might have to pay for. I am not sure in actual practice whether we have had to pay anything, because I have not been in India

lately. The idea was that whatever risk was run, it was worth it; but it would not be worth it in the case of notes which would be used purely for remittances and never in hand-to-hand transactions.

3205. You would admit, I take it, that the circle system in the past undoubtedly hindered the popularity of notes?—Yes, it did.

3206. And the people will probably be rather slow to understand that that reason has largely disappeared?—Yes.

3207. If you entirely abolished even the name "circles" it might help to make it clear to the people?—Yes, it might do so.

3208. I am suggesting that it would not really make much practical difference, because if anybody wants to use notes for remittance they can already use 100-rupee notes, and the difference between using ten 100-rupee notes and a 1,000-rupee note is not very great, is it?—I think it is very great. I am not sure—I think Sir James Begbie could tell you that better than I can—but I should think that 10,000-rupee notes would be used practically for payments between bankers, and only for that class of payments. I should think the Government would certainly lose a good deal if they were universalised, not only in the cost of remittances at present, but we get a good deal of premium from allowing funds to be transferred and we should lose the whole of that. Your idea, I take it, is that simply the name of the thing would encourage the circulation and therefore we ought to bear the cost for that reason.

3209. The abolition of circles would simplify the system, and the cost would not be very great?—I agree there is a good deal to be said for that view, but I would not do it.

3210. (Mr. Gillan.) Do you suppose that the ordinary person knows anything whatever about our circle system? There is nothing on a universal note, is there, which shows that it belongs to a particular circle except the letter?—That is so; but he does know about the circle system, because he has grown up in the knowledge—everybody has nowadays.

3211. The ordinary person who is dealing with small notes?—Yes, he knows that he could not formerly have got a Bombay note cashed in Calcutta. I think the system is generally known.

3212. (Mr. Keynes.) If you could say to people that notes were legal tender everywhere, if the statement could be put into a simple form, would that not do something to clear away the sort of doubt that remains as a legacy of the old system?—I rather doubt whether it would have any great effect. I do not think the wording of the Act would reach the public. I think it is the actual practical thing that they look at most. They know that they can get a Calcutta 100-rupee note changed in Bombay now, or they gradually acquire the knowledge that they can, and I should not think the native Indian people would think of what the actual wording of the Act was, and that it was only in the case of the notes that they themselves used that they would learn that they could do it, and that they would not acquire the knowledge in the case of the very high value notes. It does not seem to me, therefore, that the actual wording of the Act would appeal to the native mind.

3213. At present in the case of anybody who was brought up in the old state of affairs, it is a complicated business to explain to him exactly what the existing position is?—Yes, but do you not think it will gradually die away?

3214. Perhaps. You express the opinion that to increase the circulation of the notes was a very important thing?—I think it is very important.

3215. Does any way occur to you by which the popularity of the notes could be further increased?—Only what I just mentioned—that we should encash them at more places than the currency offices.

3216. Is that feasible?—I think it is feasible. I think it might entail a higher coin reserve, that is the only thing.

3217. Would it be possible at, say, the post offices always to encash 5-rupee notes if convenient?—Yes, I

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should think it might be possible, but I am not sure, and I would rather not say exactly.

3218. I am rather thinking of instructions to Government officers to do this, in order to produce the impression on the native mind more than is the case at present that the Government would like to make it easy to cash notes?—I think it might be done.

3219. At any rate, more could be done than is being done?—I think something more might be done, but exactly what I should hardly like to say without examining the thing closely, as I have never thought of it; in fact, my attention had never been drawn to it until quite recently, and it was not drawn to it while I was in India. We never raised the question then whether we should encash the notes anywhere except at the special towns.

3220. (*Sir Ernest Cable.*) With regard to the suggestion that the post office should always encash 5-rupee notes if convenient to them, that would have a good effect so far as it went, but it would also have a harmful effect if one day the post office were unable to cash them; would that not lessen confidence in the note issue?—There would be an objection to uncertainty.

3221. And it certainly might be criticised?—The fact is I have really not considered these things; I have not taken them into consideration at all. It would require a good deal of consideration before we could say exactly how far we could go in the extension of encashability. You would have to consider all the points we have just been mentioning, and it is not an easy question consequently to answer off-hand.

3222. (*Mr. Keynes.*) In your time the Government did not consider whether they were pushing the notes as much as they could?—No, they did not—at any rate, not to my knowledge.

3223. Mr. Gladstone spoke to you about the amount of coin kept in the sub-treasuries, and he asked you on what sort of principle you had been acting, and you answered, as I understand, that the dominating consideration was that you should avoid the constant bother of the movement of money and so forth, because that was expensive and troublesome?—It is very expensive in such a large country as India.

3224. But if you are prepared to face that trouble you might be able to have rather smaller balances at the sub-treasuries without risk?—That might be so at the treasuries, but you cannot have smaller balances at the sub-treasuries, because that is where we collect our revenue, and we do not make payments from the sub-treasuries, or at least very few.

3225. As long as the alternative was to move the money into the reserve treasuries and there leave it idle, the consideration of the trouble and expense would be paramount, but if the money that you move was being used you could set against that trouble and expense the interest earned; I mean the amount which the Government of India could lend or invest depends on the amount in the reserve treasuries, and the amount in the reserve treasuries depends on the amount in the other treasuries being kept as low as is convenient?—I am afraid I do not quite understand that. The amount which the Government can lend depends upon the amount we get at the reserve treasuries. Are you talking now of loans from the Treasury balances?

3226. No; I am speaking of loans from the Paper Currency Reserve, your original proposal?—A loan from the Paper Currency Reserve has no connection whatever with the balance in our Treasury. The balance in the treasury is entirely independent of the currency.

3227. I thought you were speaking of the paper currency offices?—No; I think Mr. Gladstone was speaking of the treasuries. But I quite see what is in your mind. If we did not mind the trouble and expense of remittances, we certainly could work with a smaller balance.

3228. Is the amount of rupees at the currency offices all over the country kept down to the lowest point?—Yes. We fix the total amount of rupees in our currency at a certain maximum figure at the beginning of the busy season, and work down to the

lower figure at its end; but that maximum is a maximum with reference to all the Paper Currency Reserve, and not to the reserve at one place.

3229. On what principle has that maximum figure been fixed?—It has been fixed upon the experience of previous years as to the absorption and the return of rupees from circulation.

3230. Has it been overhauled lately?—Yes, quite lately, I think about 1910 or 1912; I have forgotten which.

3231. You do not think there is any room for economy in that way then?—In what way?

3232. You think there are as few rupees scattered about the country in Government treasuries as is possible?—Yes, I think so. I think the amount calculated is a very reasonable one.

3233. (*Sir Shapurji Broacha.*) When you left India you think the Treasury balances had reached the safety point of about 11 or 12 crores?—I think the minimum was calculated at about 11 crores.

3234. Have you any idea now what the figure should be for the safety of the Government?—I think it should be about the same. I think we calculated a fairly liberal figure at the time. We used to work with a lower Treasury balance; it was once about 8½ crores at the height of the busy season, and we raised it to 11 crores so as to give us a liberal amount.

3235. But that was four years ago?—I think it was about 1909 or 1910 we began raising it. We did not do it all at once; in one year we raised it to 10 crores, and I think in the following year to 11 crores; I have forgotten the exact dates.

3236. Supposing we put it at the utmost and say 15 crores?—We never tried to work to so high a figure as that.

3237. If it were 25 crores now, what would be your advice?—But we had not that amount.

3238. If 25 crores were in the Government Treasury Reserves, and that is the existing figure at this date?—It should not be 25 crores, as a matter of fact, unless you entirely change the principle of how much you draw away to England.

3239. That is the balance, not the fixed minimum, as it exists now actually in the Government treasuries?—Do you mean in any particular month?

3240. At the end of last year, March?—You have got to recollect that the balance at the end of March is fixed with reference to what the balance will be on the 30th November.

3241. That has been done for some time now. How much do you think would be lent in time of stress or strain on the money market, about five crores?—How much of what?

3242. Of the 25 crores balance lying in the Treasury idle?—We never required a higher balance than about 18 crores in India at any time. A little over 18 crores is our maximum balance on the 31st March, and we do not ordinarily require a higher balance than that in order to have 11 crores on the 30th November.

3243. Ordinarily about 12 or 13 crores will suffice?—About 12 or 13 crores will suffice for these months, November, December, and January.

3244. Supposing that in January you have 20 crores, I think it would be safely lent, what do you say?—Yes, undoubtedly.

3245. Our fiduciary securities are now 14 crores on a circulation of 69?—Yes.

3246. That is only 20 per cent. of the whole now?—That is about it.

3247. Do you not think, compared with what it is in this country and in other countries, that that is a very low percentage?—Yes, I think it is unnecessarily low.

3248. In fact Government cannot afford, if the Treasury balances are very low, to give you any loans from the currency balance against Government paper?—They could if it stayed as at present.

3249. There are only about eight centres or eight circles for encashing notes; is that so?—I do not remember the number, but it is something like that.

3250. Could not the Government, with their present machinery, enlarge the number of circles?—I am not sure what the advantage would be.

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3251. (*Mr. Gillan.*) But it could increase the number of offices at which notes could be encashed?—Yes, that is one of my points.

3252. (*Sir Shapurji Broacha.*) In one of the letters that has been put before us it is stated that the Government have to keep money in 200 large places and about 800 small places, so that when we are talking of a State bank which could have a number of branches, may it not be said that the Government have branches enough already if they choose to encourage the larger taking of notes by the people?—Yes, and I have just said that I think we could, perhaps, increase the number of places at which we encash the notes. Of course, we should not do so at every Treasury.

3253. Did you also say that money could be lent from the Gold Standard Reserve in time of stringency?—I said that it could not.

3254. (*Sir James Begbie.*) I understood you to say that you thought you could not lend from the Treasury balances, because you could not count upon the Treasury balances?—That was so.

3255. Does that apply to the revenue collecting months in the early part of the year?—It might apply. You never know when a time of strain might fall on the Government. It is quite possible that we might be very short of money, and even have to stop the Secretary of State's bills. We did so, you will remember, in 1897. At that time a war occurred, and at the same time there was a famine and the war happened to be in August, but if that happened to be in January or in February, I am not at all sure, even although the revenue collection came in at that time, that we should be in a position to give money to the banks.

3256. Taking the figures over a number of years, the Treasury balances are always high, are they not?—Generally; I do not say that usually we could not give it to the banks.

3257. In the last two or three years there have been very large surpluses; do you think those surpluses could have been held in India and lent out, or do you approve of their having been brought home?—I approve of their having been brought home.

3258. You do not think they would have been more useful if lent out in India, so far as the money market was concerned?—Of course you could retain a certain amount of surplus for loaning in India, but then what are you going to do with it afterwards? Supposing you lent the surplus and did not draw it away when a favourable opportunity occurred, you would be left with it on your hands for the whole of the year except for the first two months.

3259. What would you gain by having it sent home?—By having it sent home it could be spent either in the avoidance of debt by capital expenditure, or in the reduction of debt. It is useful at home; it is no use in India.

3260. As a matter of fact it was lent out in London?—Some of it was.

3261. And it went to accumulate the cash balances?—No; I do not think that is quite right. My own idea is that a large portion of it was drawn away, and as soon as it was possible to employ it, it was employed either for capital expenditure or for the reduction of debt. Of course you cannot always employ your funds at the moment, because there are certain conditions which compel you to keep them perhaps temporarily in hand. The idea was to utilise them as early as possible, and I fancy they were utilised as early as possible. We should have been hampered in doing so if we had left them in India.

3262. I think a good deal of the balances in London were formed from the surpluses drawn from India?—Nearly all; in fact all except the few millions that they had at home.

3263. The balances rose to a pretty considerable figure?—They rose to a considerable figure, but I do not know that it could have been foreseen that they would rise to a particular figure. The Secretary of State, I think very wisely, drew away the balances as he was able to do so. In the long run he must draw

them away, in order to pay our home charges and to reduce debt.

3264. I am talking about surpluses?—And I mean that we must draw away the whole of the surpluses; we cannot leave them unutilised in India, unless you can present some alternative scheme, and I do not see any alternative scheme myself. To keep them simply in order to lend them to the banks for two months would not do away with the great inconvenience that we should experience if we, say, had some temporary debt, which we could reduce in the middle of the year at home, and we are prevented from doing so because we have not drawn away the funds. That perhaps might entail our raising more permanent debt at home, which we otherwise should have avoided if we had drawn away the funds. I think it would be a very serious step to leave them in India for the purpose of lending to the banks.

3265. The surpluses might be used, might they not, to reduce taxation?—That is so, of course; they can be used to reduce taxation if you think the permanence of the surpluses is assured.

3266. I understood you to say that you objected to lending, or that you did not approve of lending in India, because such loans might operate against the sale of Council bills, or because, at any rate, you would not get such a good rate for the sale of Council bills?—I did not say that I had a distinct opinion on the point; I said that it had been suggested, and perhaps there is some reason in it.

3267. After the Government have remitted all that they have to remit in the year, would you still consider there is any objection to lending in India? For example, in the last two or three years the Government have remitted all that they budgetted for very early in the year, perhaps by December, and then they proceeded to sell bills to bring the whole of the surpluses home; in a year like that do you not think that they might give loans in India and help the money market in India?—I think so as regards the portion which need not be remitted home. I think the reason, and the only reason, against it is the idea that if you do help the money market in India with loans, it will get into the habit of depending on the Government. I think that is the idea underlying the objection—that if you help trade, say, in one year like that you have instanced, a year in which it would be quite possible to do so, then in the next year it might not be possible, but trade would have come, after perhaps two or three years, to rely upon its being done, and it would cause trouble when it was not done. I think that is the feeling underlying the reluctance in India to lend the money.

3268. With regard to the loans from the Paper Currency Reserve, would you fix any periods for those loans?—I think that would have to be done.

3269. Would you fix any minimum rate at which they should be given?—I cannot give an opinion upon what the rate should be. It should undoubtedly be something below the bank rate of the day, but what rate I cannot say.

3270. But there would be no absolute minimum in the way of rate?—I suppose Government would not give loans unless it was absolutely necessary, that is to say, unless the bank rate showed it—unless the bank rate was at least 6 per cent. to 7 per cent.

3271. I think you said that you consider gold in circulation is of no use to support exchange?—I cannot see that it is.

3272. For the support of exchange it is preferable to have gold in circulation rather than silver, because the more gold you have in circulation the less rupees you have in circulation?—Yes, that is so.

3273. So that negatively, anyhow, gold is preferable for the purpose of supporting exchange?—In that way, it is.

3274. Would you say that the experience of 1907-8 shows that there is some danger of an excess of rupee coinage?—I do not know that that is the case. I think the experience of 1907-8 is perhaps not the most severe strain that we may be subjected to. I think it would be dangerous to suppose it is the greatest we will ever be subjected to. Of course we know that we have got that enormous rupee coinage.

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3275. And you recognise that there is a danger attached to it?—There is, of course, a danger attached to it.

3276. You said something about alternative methods of drawing bills by the Secretary of State; is it necessary that there should be any alternative method of drawing bills?—I do not think I mentioned that, did I?

3277. I understood you to say that in the case of the Gold Standard Reserve in India, the silver branch was maintained so that it might be available?—I simply mentioned that because of the difficulty of withdrawing gold from the London market. That was my meaning at the time.

3278. You were thinking of the London market?—Yes; it was the old question of earmarking gold in the Currency Reserve.

3279. Do you think there is some disadvantage in coining gold in small pieces, and do you think it might lead to more gold being wanted for currency purposes?—I do not know that it would. I only said that as far as it did, it would increase the drain of gold and, therefore, might be regarded as an evil. I do not say, one way or the other, anything about its increasing the circulation because I do not know, and I think that it is mere guess-work.

3280. Do you think it would increase the demand for gold?—I think it would, if it increased the circulation or if the natives liked the 10-rupee piece better than they do the sovereign, otherwise I do not think it would have any effect.

3281. I cannot see how it could increase the demand for gold except through the action of the balance of trade?—In this way—at present you have got a certain amount of silver, and Indian merchandise is exchanged for foreign merchandise plus gold plus silver. Now the silver is used for three purposes—arts, hoarding, currency. If you replace any portion of that silver currency by gold, you will take more gold and less silver in payment for your products. Therefore, the use of the gold currency in India increases the drain of gold from Europe, unless you get the gold for it out of Indian hoards, which is unlikely, though there is no reason why you should not.

3282. In the case of silver you have to buy your silver, and you have to use gold to buy the silver with?—Your silver is really a matter more of what you import than of what you export. I am talking about the net imports of gold and silver, and you can leave the export of gold and silver out of account. For your merchandise you receive merchandise, gold, and silver, and part of that silver you use in coinage. As to the parts which you use in arts, and which are hoarded, there is no reason to think that the circulation of gold will alter those two parts. It alters the amount of silver in the currency because then there is more gold used and less silver, consequently, if you use more gold and less silver, you import more gold and less silver.

3283. Do you think you do so?—Why not?

3284. Do you not think the balance of trade is paid in gold and that it is Government which converts the gold into silver—I am talking of the kind of things that are imported into India. You admit that you import merchandise, gold, and silver into India?—I say that if for any reason you increase the use of gold and decrease the use of silver in India, you will import more actual gold and you will import less actual silver.

3285. Do you mean in the currency?—In the currency or anywhere else. If you increase the hoarding of gold in comparison with silver, you will again import more gold and less silver.

3286. I am afraid I cannot follow that?—That is my argument. I may be wrong, but I think that is true. Suppose you use gold for a purpose you previously used silver for. The country naturally imports what it wants, and it will import more gold and less silver.

3287. Suppose the balance of trade is, say, one million sterling; at the present time India takes, say, half a million in gold and half a million in silver, that is for use as currency. How do you get that silver? Do you get it out of the balance of trade, which is half a million gold and half a million

which the Government convert into silver themselves, or do you take the total amount of the balance of trade, one million, and say the total amount added to the currency is one million? Then if the habits of the people change and make them take gold instead of silver, do you say that the Government would not still take the one million of gold just as before?—I have not taken one million of gold—I have only taken half a million of gold. They have purchased with their produce half a million of gold and half a million of silver, and I do not see how you can get away from the fact that they actually send goods out of the country and that they actually bring in gold plus silver, that if they want more gold than silver they will decrease the amount of silver they will bring in and increase the amount of gold they will bring in, and that that must increase the drain of gold from Europe. That is what I hold, and I think it would be the same thing if the 10-rupee piece is simply passed through the mint into hoards.

3288. I am talking about passing into currency only?—I think the same thing occurs in both cases, myself.

3289. With regard to the Gold Standard Reserve, I think you said you thought it ought to be held at home because it was wanted at home in a crisis?—Yes.

3290. As to the liability to convert rupees into gold, does not that liability fall due in India?—No.

3291. The people who want rupees send home for gold to get rupees?—Yes, but they do not want to receive the gold in India; they want to receive the gold in England.

3292. I think the liability is in India, and you have to convert the rupees in India?—Will you offer them gold in India and see what they will say? We did offer them gold in India; they did not send it home, but they asked us for gold in England.

3293. That was because you gave them the offer, was it not; if you had not had the gold in London, what would have happened?—Do you mean that they would have preferred to send the gold home themselves rather than have it here?

3294. I do not say they would have preferred that, but I say the liability to make the conversion is in India; what do you say to that?—I do not know exactly what is meant by the liability.

3295. The liability of the Government?—Theoretically it is so, but it is not so practically. We are supposed to buy back the rupees, and we are supposed to buy them back in India.

3296. (*Mr. Gillan.*) I suppose that there are really historical reasons for the present system of treasuries in India, that is to say, they grew up at the time when there was nobody else to do the business?—That is so.

3297. Do you think there is a case for reconsidering it under more modern conditions, I mean with the extension of banking facilities; does it seem very well adapted to these more modern conditions which we have now?—What do you think is not adapted? I am afraid I do not understand.

3298. I mean having an entirely different Government machinery that goes down from the Presidency towns right through the districts, with sub-treasuries, running alongside a fairly developed banking system, duplicating it more or less. I am not putting any definite scheme before you; I am merely asking whether you consider that there is a case for reconsidering the machinery of Government finance in India?—I am afraid I do not quite see the point. It is impossible to say, without knowing exactly what is in your mind, what machinery should be substituted for it.

(*Mr. Gillan.*) Some method of, we will say, joining it on to the banking system without the banks taking it over in some way.

3299. (*Chairman.*) Would you agree that wherever the Indian Government can persuade the banks to start a branch at less than the cost of the treasury to themselves, they would be wise to pay whatever within that figure is required to induce the bank to do so?—I think that might be so. I think if we could get an

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extension of banking facilities in place of a treasury it would be a good thing. It is the practical point of view that I am looking at. A bank does not work for the benefit of the public, it works to earn dividends, and if the place is such that it cannot make it pay, then they cannot go there. There are hundreds of places where they could not make it pay.

3300. (*Mr. Gillan.*) As a matter of fact, can you tell us on what sort of terms the Presidency banks have started new branches?—They have started them very reluctantly, and once or twice they dropped them after they had started them, because they did not pay.

3301. What sort of terms had we to give them?—I do not remember giving them any special terms, except allowing a minimum balance to rest with them.

3302. We guaranteed a minimum balance?—Yes.

3303. For a number of years?—Yes.

3304. That method obviously cannot be very largely extended, can it?—It could be extended.

3305. I mean without increasing your Government balances as a whole. If you earmark five lakhs here and five lakhs there, and if you increase the number of branches substantially, the total would mean an addition to the minimum Government balances?—Yes, it would.

3306. So that there is not very much to be done along those lines, is there?—I am afraid I have rather forgotten. At one time I did know how the matter stood, but it is four or five years since the question was dealt with.

3307. (*Chairman.*) Have you ever paid a direct subsidy to any branch?—I do not think so. I do not remember doing anything except guaranteeing them a minimum balance; that was about the only inducement.

3308. You probably would be familiar with the cases where private individuals, great contractors or great companies, for instance, have found it worth while to subsidise a particular branch in order that they may have banking facilities where they are carrying on their work, no banking facilities existing there previously. You do not think that has ever been considered?—I do not think we ever have considered it. My memory is rather bad as to exactly what occurred when we were trying to press the extension of branches, which was about six or seven years ago.

3309. (*Mr. Gillan.*) I think the only terms offered were the guarantee?—I think that was all we did.

3310. In addition to those treasuries scattered all over the country we have got these very large balances at the Presidency towns?—Yes.

3311. And as you know, we have a big business in transfers between the Presidency towns and up-country?—Yes.

3312. I want to ask you, as an official who has dealt with these things in a practical way for a long time, whether you do not consider that that sort of business would be better run by experienced bank officials rather than by Government officers?—Yes, I do think so.

3313. Now how about the loans in India; you said, I think, in answer to Sir James Begbie, that there was, as a matter of fact, a surplus balance available over and above the minimum working balance in the latter part of the busy season, that is, from January to March we will say?—There usually is, I think.

3314. Your chief objection to lending it out is that it cannot always be depended on?—That is so.

3315. That is to say, there would be years in which there might be no surplus?—I agree.

3316. At the same time that is a surplus which we are bound to have temporarily in India in a good year?—Yes.

3317. Because we are aiming at finishing the financial year, as you said, with a balance of about 18 crores?—That is so.

3318. Does that not mean that that is liable to be drawn off by Council bills?—May I say that finishing the financial year with a balance of 18 crores is of no importance except for one purpose, and that is, so as to be sure on the 30th November of having a balance of 11 crores; otherwise the 18 crores balance is very much higher than what we can work with on the 31st March.

3319. That I quite understand, but as a matter of fact, in order to secure an economical balance at the end of November we did always budget for a closing balance of somewhere in the neighbourhood of 18 crores?—Yes, always.

3320. From January onwards you have a certain amount over and above the minimum working balance?—Yes, we do.

3321. It would be a temporary advantage to the Government to lend that out?—Yes.

3322. It would be making interest?—It would.

3323. And in the years in which they could so lend money from this Treasury balance it would be an advantage to lend it, would it not?—Yes.

3324. Do you not think those two advantages are at any rate to be taken against a possible disadvantage in some year in which Government could not afford to do it?—I think so. I do not hold any very strong opinion against lending the Treasury balances to trade. I say that there are objections to it and I mention the objections, but I do not personally hold a very strong opinion at all against doing it.

3325. But you recommend lending from the currency reserve?—Where it can be done.

3326. Still, that does not exclude this question of lending temporarily from the Treasury balance?—No, it does not.

3327. The two things are not in conflict really?—No, not at all. I merely mentioned the currency policy as one that might be followed if the Treasury policy were entirely rejected.

3328. Several questions have been put to you to-day about the extension of facilities for the encashment of notes, and I think you said in answer to Mr. Keynes that that question has not really been considered by the Government of India?—It was not in my time.

3329. When the question of the universalisation of notes was under consideration, the main difficulty always considered was the difficulty that might arise from the use of notes in remittances, was it not?—Yes, that was the main difficulty.

3330. Government was afraid, in fact, of being flooded at some particular currency office by an enormous number of notes collected elsewhere and of not being able to cash them?—Not only that, it was afraid it might be necessary to move cash in order to do that.

3331. Do you happen to know as a matter of experience, since universalisation was carried out, whether that difficulty has arisen or not?—I do not know. You must remember that universalisation only preceded my departure from India by a very short time, and there really had not been sufficient time to gain experience of it when I left India.

3332. The reason I am asking you about that is this: We were talking about the extension of offices at which notes could be encashed; probably the difficulty that was in your mind is precisely this remittance difficulty, is it not?—Yes, it is.

3333. If the experience of universalisation of notes had shown, or has shown, that that difficulty has not, in point of fact, arisen, would it affect your view of this question of increasing the number of offices?—Not quite. The two things are on rather a different footing. The universalisation of notes merely meant that they could be encashed at the head currency offices. As you know, we keep very large amounts of coin ordinarily at the currency offices, but we do not do so in the case of the treasuries. We have never been in the habit of doing so, and to do so we would have to increase the coin reserves.

3334. The distances between the different currency offices at present are very large, are they not?—Yes.

3335. In order to protect ourselves against the excessive use of notes in remittances we arranged when they were universalised to give transfers?—Yes, we did.

3336. At a nominal rate?—Yes.

3337. Do you agree that that is a safeguard?—Yes.

3338. And it is a safeguard that would not apply to any great extent between two adjacent places?—It probably would not.

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Mr. O. T. BARROW, C.S.I.

[Continued.]

3339. Do you not think the possibility of a political crisis is a possibility which, in the circumstances of India, has got to be very seriously considered?—It has.

3340. Would that affect your view as to the extent to which it is desirable to carry the fiduciary portion?—Do you mean the extent of the investment?

3341. Yes?—If the reserve is safely invested, if the investment is in securities which are easily realisable in England, for instance, would it affect it seriously? Are they not nearly as good as gold?

3342. Is not this necessity of encashment one which conceivably might come on Government very rapidly? If at any time the stability of the Government were threatened in any way, might there not be an absolute rush to get the Government notes encashed?—Of course, there might; it is possible.

3343. What I want to bring out is that it is not merely a seasonal need that would have to be provided against, but also the effect of some such circumstance as I have put to you?—I quite understand that.

The witness withdrew.

At the India Office, Whitehall, S.W.

NINTH DAY.

Friday, June 27, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.

Lord KILBRACKEN, G.C.B.

Sir ROBERT CHALMERS, K.C.B.

Sir ERNEST CABLE.

Sir SHAPURJI BURJORJI BROACHA.

Sir JAMES BEGGIE.

Mr. ROBERT WOODBURN GILLAN, C.S.I.

Mr. HENRY NEVILLE GLADSTONE.

Mr. JOHN MAYNARD KEYNES.

Mr. BASIL P. BLACKETT (*Secretary*).

Mr. ALFRED CLAYTON COLE called and examined.

3344. (*Chairman*.) You were, till quite recently, the Governor of the Bank of England?—Yes. I gave up that office in April last.

3345. I think you appear here to-day as representing the bank?—Yes. I should like to say that the governor of the bank was asked to nominate someone to represent the bank. I wish the Commission clearly to understand that the bank is only too willing, indeed is desirous, to help the Committee in any way that it can, but when I was asked to write what you may call a précis of evidence, we wrote back to your secretary that while the bank is perfectly willing to answer any questions to the best of its ability, as we are the bankers of the Indian Government we do not wish in any way whatever to appear here as their critics.

3346. I think the Commission quite understand the position, and we are very much obliged to you for coming?—I will endeavour to answer, as far as I can, any questions that are put, but if there should be questions to which you should desire what I will call a considered answer from the bank, of course I must ask for them to be submitted in writing, and then I will consult the bank. I represent the bank, but it is difficult always to represent the opinions of 26 people. As far as concerns those questions which turn on the points in the paper that was handed to me by your secretary, I think I can probably give you what is the opinion of the bank. Any other questions that may arise, you will quite understand, may require a little consideration, and I may ask you to let me give the answers possibly later on on behalf of the bank.

3347. We quite understand that. The first question I want to ask you is a general question which, I think, lies at the root of a good many of the subjects we are inquiring into. Can you tell me in outline what are the relations between the Indian and the London money markets?—My reply to that question would be that there are no direct relations between the London and Indian money markets. The discount rate in London affects the exchange rates, and any gold demand for India hardens the discount rate in London,

that is to say, there may be a considerable indirect effect. If you ask, are there direct relations between the Indian and the London money markets, personally my answer would be in the negative. That is a question which you may better address to the Anglo-Indian banks, no doubt many of whom you will have before you.

3348. Do you regard the present system, by which a Government department through the Secretary of State lends money to the London money market, as open to objection in principle?—Yes, I do; that is to say, I think it is objectionable to have large sums of money raised in London which are, so to speak, not in any sense required for English trade. The loans in the market of the Indian Government are very large. I had the figures taken out the other day at the bank, and I find that the amount they are lending now through their broker is approximately 11 millions. That is money which, in the London money market, you can hardly describe as good money, because it is liable to be withdrawn for reasons which have nothing to do with what I call the London market. The India Office lend the money at the best rate they can get, quite independent of what I call the considerations affecting the London market proper; therefore, that money may be lent, and is at times lent, in a way which is disadvantageous certainly to the Bank of England, which has to look after the gold reserve of this country.

3349. Will you develop that a little; in what way is it disadvantageous?—The India loans are made by the broker, and he lends, as I said, at the best rate he can get; and that rate at times is, I should say, below what it is desirable in the interests of maintaining the discount rate in London that it should be lent at. We had a case quite recently in which the India Office was lending money at rates which to us at the bank looked to be too low. You have, therefore, a big lender lending money which is at call, and at times—I do not say it often happens, but it does at times—acting quite against the central institution which is responsible for the maintenance of rates. As you will well understand, if the discount market get cheap money they will put down the rate of bills.

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[Continued.]

3350. Your criticism is that it weakens the control of the Bank of England over the money market?—At times it undoubtedly does.

3351. And that that control is the only buttress for the gold reserve of England?—Quite correct; therefore it may be, and it does at times—not often though—work against what we consider the interests of this country.

3352. In so working against English interests—you will understand what I mean by that phrase—do you think that it incidentally is disadvantageous to India, or is the profit all on the side of India and the loss all on the side of England?—That depends upon how the money is raised. If you raise the money by bills and the Indian Government has had out some five millions of bills, I should think that it was paying a higher rate for the discount of those bills than it was getting for its money. If that balance is accumulated here merely out of Council drawings, I am not able to say whether the rate that they get for their money is or is not higher than what they paid for it. That is a question which the India Office can answer and not myself.

3353. To the extent to which the money is raised through the sale of Council bills and telegraphic transfers, is it correct to describe it, as I think you did, as money raised in London? Is it not merely the payment by London of a debt through the Secretary of State instead of a payment by London direct to India?—Probably that is the case. Undoubtedly payment of the drafts has to be made in India, and in that sense it, of course, is money raised in India and not in this country.

3354. The alternative to the sale of those bills and drafts would be the shipment of gold to India, would it not?—It might be so. It does not necessarily follow that the gold would be shipped from this country, but that might be the result.

3355. Do you mean that it might be a shipment of Australian or Cape gold?—Yes. London is the financial clearing house, and it does not necessarily follow that it would have to come from here. In these days of telegraphic transfers there is a good deal of business done from Australia to India, and that takes the place of a shipment from here.

3356. When you get to the bottom of it, though it may pass through intermediate stages, is it not in truth and in essence the payment of a trade debt owing by London to India?—Owing by somebody to India.

3357. Where the money so raised is represented by Indian Treasury bills, am I right in thinking that those would be raised in anticipation of the Secretary of State's capital requirements?—I know nothing of that. I cannot give you any opinion as to what the Secretary of State's requirements are.

3358. You only know that they are raised?—I only know that.

3359. Were you referring just now to the loan made in 1908 or some more recent transaction?—I was referring to India bills which were in the market for a considerable time; I do not know what they were raised for, but they were raised, and I should have said they might have been paid off earlier than they were paid off. The bills I refer to were paid off about last year or the year before.

3360. I think those were raised in the famine year of 1907-8. Has this system of loans on the London market any effect upon the success or otherwise of Indian loans raised in England?—The system of lending money in London does not damage Indian credit. A man who has any funds and who wants to borrow is in a better position than a man who is bound to borrow.

3361. In making these loans against approved security, the Indian Government has been accustomed to advance on the face value of its own securities, on the market value of the best British Government securities, and at 5 per cent. below market value on the next class of securities—all, of course, being a very high class of securities. It has been represented to us that this preference given to their own securities is on the whole desirable as tending to help them to

place their loans at good rates; do you agree with that view?—I agree with the view that it assists those loans, decidedly. In the market, so to speak, looked at from the Bank of England point of view, it makes those stocks into a kind of what are called "floaters."

3362. Of course, *prima facie* it strikes one as curious that they should take an Indian security at its face value even though its market value be below it, and that they should take a British Government security only at its market value. Would you advise the continuance of that practice for the reason you have just given?—I was not aware that it was done.

3363. These are the details: "India debentures, India bonds, and guaranteed debentures of the several Indian railway companies, are taken at their par value. Treasury bills, Exchequer bills, Exchequer bonds, India sterling bills, Metropolitan Water Board bills, and London County bills are accepted at their market value, instead of their nominal amount" (see Appendix XI., paragraph 5, page 310); and then India 3½ per cent., Metropolitan Consolidated Stocks, Corporation of London debentures, and the bonds or bills of Colonial governments and others are accepted at 5 per cent. below their market value?—I should say that to take a security at par value when it may be 10 per cent. below par is bad finance. Personally, this is the first time I have ever known such a thing was done.

3364. (Lord Faber.) It is not as much as 10 per cent., but the principle is the same—more is lent on it than it is worth?—That is bad business then.

3365. (Chairman.) It was represented by a witness to whom we put that question, that as the Government of India was both a borrower and a lender, on balancing its two interests, it was worth while to take this risk as a lender for the extra advantage which the Indian Government got as a borrower; do you think that is sound?—No, I do not. I see they have put in Colonial Government securities. We, at the Bank, have never accepted Colonial Government securities as floaters, and I imagine that those Colonial Government securities have only been put in because the India Office broker finds a difficulty in obtaining sufficient other securities. In so far as the Indian Government are taking those Colonial securities, they are departing from the principle that we have always held at the bank, that those floaters should be confined principally, though not entirely, to British Government securities. Therefore, in that respect I should say the India Office in this action are working against the interests of the British Government.

3366. Do you include the large British municipalities with a population of over 500,000, whose stock is put here in the same class as the stock of Colonial governments?—Do you mean at the Bank of England?

3367. Yes?—We only include municipal stocks when they are domiciled at the Bank of England.

3368. Has India, in your opinion, borrowed too much of late?—Our answer to that question is this: India has probably not borrowed too much; but the fact that it is known that she will continue to borrow annually does naturally tend to keep down the quotations for her loans. I would like to add that if India at any time requires money on a large scale, she would probably have to issue a loan with a fixed date for redemption.

3369. Can you give me some indication of what you mean by a large scale? I can see that it must be an elastic figure?—I mean if she came in and asked for 25 to 30 millions. The big investment world flow, which includes the bankers, and so on, are undoubtedly giving a preference to loans with a fixed date for redemption.

3370. That would apply, therefore, to other borrowers as well as to India?—Undoubtedly. I would go so far as to say that, if this country, unfortunately, were at war, and we wanted a large sum of money, I think you would have to alter the system of borrowing by this country.

3371. Has the credit of India declined relatively to that of other borrowers?—I think not, if you compare the quotations for her loans with other trustee investments which have no fixed date for redemption. All the Colonial loans have a fixed date for redemption

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[Continued.]

and from some figures that I had taken out, because I thought you would ask this question, it seemed to me that Indian securities had gone down more than Colonial securities, and I think that is the reason of it. If you compare the decline of Indian Government securities which have no fixed date for redemption with other trustee securities of a similar class, that is to say, where there is no fixed date for redemption, but which have gone down, I do not think the result will be found adverse to India. But I should think you have already had that question answered.

3372. May I return for a moment to what you were saying about the Indian money loaned out on the London money market, and to the inconvenience of the practice in certain respects? Would what you have said about this Indian money apply equally to any foreign money that happened to be on the market, Japanese money for instance?—To any money which is of such an amount that the withdrawal of it without notice would be of importance to the London money market.

3373. Foreign government money on the London money market, if of sufficient amount, therefore would be entirely open to the same objection?—Yes.

3374. Have you anything to say as to the relations which prevail between the India Office and the Bank of England?—The relations between the India Office and the Bank of England have always been most cordial and friendly, and the bank has always endeavoured to assist the India Office as far as possible. Last year, however, as the members of the Commission are doubtless aware, a difference arose between the Bank of England and the India Office over the question of the purchases of silver.

3375. Have you anything to say about that?—No. The details of the differences are public property.

3376. It has been suggested that the Government of India might avoid some of the difficulties they have experienced in the past if they purchased silver fairly regularly, that is to say, if, instead of waiting until their demand is a very large one, they purchased year in and year out a certain more or less average amount of silver. Have you any observations to make on that?—I think they know perfectly well that they will require silver, and therefore I think, having regard to what I call the ordinary prudence of merchants, they should not wait until they are put into the hole.

3377. Have you looked at the figures of the circulation of silver coin in India? I ask because our attention has been drawn to the fact that they vary very much in particular years, and that the amounts required as between two succeeding years have varied as much as 20 millions sterling?—I have not. I only know roughly that there is a demand for silver in India dependent very largely upon the monsoon, and of course the Indian Government cannot control the monsoon.

3378. It has been objected by some of the witnesses to any proposals for buying silver regularly, that the result would be that they would be in the slack years altogether overloaded with silver?—That is a thing on which I have no opinion. That is a matter which the Indian people must settle. We at the bank could not possibly have an opinion on that, because we know nothing about it.

3379. To turn to quite another subject, I think you know that there have been suggestions for the creation of a State bank in India; have you formed any general view on such a proposal?—I think the question there rather is, what do you mean by a State bank? Do you mean a central bank or do you mean what I call an official State bank?

3380. Let us take both alternatives in turn. Suppose it meant merely a central bank?—On that point I should say the opinions of the bank differ. I think, as the Commission are aware, one of our directors is a strong advocate for the founding of a central bank in India.

3381. Is that Sir Edward Hambro?—Yes; that central bank to be with or without a branch in London. The position of other directors is that while not directly opposed to the foundation of a central bank, they are willing to leave matters as they are, as they

see no necessity for a central bank. On that particular point you will not get unanimity of opinion among 26 people.

3382. If it meant a State bank in the strict sense of the term, what would be your opinion then?—A State bank in the strict sense of the term would probably be what you have got now, that is to say, you would have a department of the State in which the State would be the shareholder, and that would run the finances of India much as it does now. The whole object of a central bank would be, to my mind, to take the practical financial control out of the hands of the Government and make that bank the Bank of India instead of what is the position now. I think all the evidence, so far as I am aware, makes out that the Government are the principal bankers in India.

3383. I conceive that the object of a State bank would be to discharge the Government from its present liability for managing exchange or the sale of Council bills and transfers, and for the management of the currency?—I can see that a central bank which is going to take the control out of the hands of the Government might be a very desirable thing, but at the same time I do not quite understand how in India, which is a continent and not a country like this is a country, you are going to have a Bank so established that it may make a good return upon its capital. This is a question which has been before the Indian world ever since the Fowler Committee, and, as I gather, the opinion over there is that the time is not yet ripe for it; but without my knowing the view on the other side, I personally am not prepared to give what I call a decided opinion upon it. To argue from India to England is arguing upon two things which are not quite alike. Here in England we have got a central bank which performs functions which it seems to me could not be performed by a central bank domiciled in one of the Presidency towns, Calcutta, Bombay or Madras, where it would be the main bank. As I say, that is a point upon which, as I have no Indian knowledge whatsoever and have never been there, I am not prepared to formulate a very definite opinion.

3384. On the whole I gather you think the currency business and the exchange business is done very well by the Indian Government at the present time?—I have no criticism to make on the subject.

3385. Do you think it would be likely to be better done, and to be less open to criticism if it were not in the hands of Government officials whose special training for the purpose must necessarily be somewhat limited, and if it were placed instead in the hands of banking experts?—If you could get them, I think probably it would be better run, but, as I say, I have no definite knowledge. The people who have been out in India tell me there is a practical difficulty of getting a sufficient permanent body of competent men to run a bank, entirely apart from what I would call Government interference; but upon that point, as I say, I have never been to India, and I cannot give you a definite opinion. In theory I think everybody would say it is better that the banking business should be done apart from the Government; but when you talk of a bank, you have got to get the capital for it, you have got to get your shareholders, and you have got to get your board of management, and I am not prepared to say, one way or the other, that that is possible in India at the present moment.

3386. Suppose such a central bank were established as you have been speaking of. How much Government control over such a bank would be necessary or desirable?—I think the answer should be, the less the better.

3387. Is that possibly a reflection of English circumstances on Indian conditions?—Possibly, but that would be my answer to that question.

3388. As regards the establishment of a gold mint in India, have you formed any views on that subject?—I am not personally opposed to a mint coining gold in India, but so long as sovereigns are taken for the currency, local minting seems unnecessary. As regards a mint, if India is going to use coins minted here, she ought to pay for what I call keeping them up to proper value, that is to say, any loss on those coins

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[Continued.]

should not fall on this country, but should fall on the country where the wear and tear takes place.

3389. Suppose that mint were established in India, do you think that much gold would be taken there to be coined?—I imagine they would coin the gold they produce.

3390. Sometimes the gold mines there are under contract to send all their gold to this country for a period?—Their gold, I think, still comes to this country, but I imagine the ultimate result would be that they would coin their own gold.

3391. Do you think a mint in Bombay, for instance, would attract South African gold?—If India wanted gold for its coinage, yes. I should say South Africa is nearer to India than it is to London, slightly.

3392. I gather from you that your view is that the mint would not have any effect on the coinage, but the coinage would have an effect on the mint?—A mint, *quâ* mint, cannot increase the circulation of gold except very temporarily. It might very temporarily increase it in this sense, that it might supply a deficiency of coin if it could turn out that coin more quickly than it could get it, say, from this country; but *quâ* mint, a mint cannot increase or decrease the circulation of gold.

3393. Supposing that Indian opinion were in favour of the opening of a mint, have you strong views, either way, as to whether they should coin sovereigns or rupees?—Personally I think they had far better coin sovereigns.

3394. That, of course, would make the establishment of a mint in India a more costly experiment, owing to the control required by our Treasury?—That I know nothing about.

3395. Perhaps you would agree with other witnesses who have been before us, that after all, what the currency medium is to be must depend upon the demand of the people of India, and the Government must supply whatever the people ask for?—Yes, I imagine so.

3396. But in so far as Government can influence the circulation of one form of currency rather than another, do you see any advantage in increasing the amount of gold in circulation?—The increase of gold in circulation has this advantage, that in case of the balance of trade being against India, if a large amount of gold is in circulation, that gold can be exported.

3397. Do you think the gold that is in circulation is of much value for the support of exchange in a time of crisis?—I should say so, undoubtedly.

3398. You think it comes out, do you?—That is my impression. As I say, I have no knowledge of Indian conditions over there, but if you have got gold in the country, and the people are impoverished and that gold returns from circulation, then undoubtedly from the Indian point of view of maintaining exchange, that gold is far more useful than rupees which have to be melted and sold at bullion value.

3399. The point, of course, is whether, having gone into the pockets of the people it will come out at the time you want it?—That is a question which you must put to an Indian, not to me.

3400. We have had it in evidence, I think, that in 1907-8 about 4½ millions of gold was issued, and that of that only a quarter of a million was exported and went to the support of exchange?—That would be about a sixteenth of the whole. If you had 16 millions in circulation, then you would have a million on that basis for export.

(Mr. Gillan.) I think it was a sixteenth of the issue of that year, not of the whole.

3401. That is rather a costly load to carry for such small results, is it not?—But you have got to have something in circulation. You will not get the profit on the silver, I admit.

3402. A paper currency would be much less costly than that?—Yes.

3403. (Chairman.) I come now to the Gold Standard Reserve. I think you know generally, in fact I am sure you know, what the position is. Do you approve of the way in which it is now held, or should, in your opinion, more of it be held in India?—I should say I have a very decided opinion upon that point, and it is

this: Up to last year I believe no gold was held in India in the Gold Standard Reserve, but the Gold Standard Reserve was entirely invested in securities. You ask whether it should be held in India or in this country: so far as any gold in the Gold Standard Reserve is to be used for maintaining exchange, it should be held in this country and not in India.

3404. Will you give me your reason?—Because for the purposes of exchange, bills, as they were in 1907-8, would have to be drawn upon London, and if the gold is not here it will have to be sent from India to meet those drafts. It is far better and simpler to have the gold here, and not to have to send it at the time when you are drawing drafts.

3405. Do you object to holding any portion of the gold reserve in securities?—No, provided you start with holding gold. That, I believe, has been recognised now. I understand that—I believe it was only last year—the Indian Government have decided to hold five millions of gold in the Gold Standard Reserve. Last night—I had the figure taken out at the bank—they had 1,730,000*l.* in the Gold Standard Reserve; therefore they have made a beginning. That sum, I understand, they are going to make, under their present arrangements, up to five millions. The original intention of the Gold Standard Reserve, I believe, was that the whole of it should be held in gold. That I do not think is necessary when you get beyond a certain amount. The question is what amount is desirable—whether the five millions, that is the proposition—is sufficient. Personally, I should say that the five millions would not be sufficient, and that it ought to be 10 millions, unless the Indian Government clearly see their way in an emergency to use the gold that they hold in the currency reserve. They have got in their currency reserve to-day 6,100,000*l.* here, and provided they can see their way to make use of that gold there is no object, and never is any object in banking business, in sitting upon a mass of unnecessary gold.

3406. When you say that they must see their way to make use of that gold, do you mean that in case of crisis they should ship it at once from India?—They have got that here; we have got 6,100,000*l.* of it in the bank. What I am looking at is this. In 1908, when trade was adverse to India, the Indian Government had to sell out something over seven millions of their Gold Standard Reserve securities—you have got the figure; it was over 7½ millions, I think—and a similar contingency must be provided against in fixing the amount of gold they would hold here, because you will probably come on it later. If the storm centre of financial difficulty, which fortunately in that year was in New York, had been in England, the Indian Government might not have been able to sell their sterling securities at all. Of course, they could have sold them at a price—I mean, a give-away price. That holding merely of sterling securities is not only a danger to the Indian currency position but to this market also. Fortunately in 1908 the storm centre was not in London and the difficulty was got over, but when the Government is making its regulations for its currency they ought to be made in such a way, to my mind, that they provide for all eventualities, and in that respect India should bear its own burden and not throw that burden upon the London market.

3407. Do I understand your view to be that in one form or another India ought to have in actual gold the largest sum which you conceive she may need in a bad year?—That is practically so. I think beyond that it is quite reasonable she should invest her Gold Standard funds. They cost nothing; they are pure profit out of the silver, and they have never cost India a fraction. But provided that what I call a reasonable sum is held—and as this Gold Standard costs her nothing it ought not to be what I call too fine—provided she holds a sufficient sum, I think the rest can reasonably be invested in securities. But I tell you from my point of view, or at least the bank's point of view, that gold should be held in this country and not in India.

3408. You, I think, put the sum which you consider would be required for the purpose, or which it would

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[Continued.]

be reasonable to have for the purpose, at something like 10 millions or 11 millions?—I am looking at what happened in 1908, when something between seven and 10 millions was required—I do not know exactly what it was, but it is known to the Commission. India, to my mind, ought to hold definitely in gold a sufficient sum to meet such a contingency in the future.

3409. Do you think that is quite sufficient? You say that at that time New York was the storm centre; the storm was very severe there, and the crisis was very widespread. It was coincident with a famine in India, but that was, I think, by no means the worst of the famines that India has experienced. Suppose that that financial disturbance in New York and the rest of the world had coincided with a very bad famine in India, or with a period of war in India, would it be safe to take as the measure of her possible requirements what she actually needed in 1908?—No. I guarded myself against saying that that amount was specific. I said she had got to provide for what I call any probable contingency.

3410. As regards the remainder, have you anything to say as to the class of securities in which it might be invested? Would you confine it to short-dated securities, or would you allow them to take, as they did at one time, consols?—They would prefer undoubtedly to take short-dated securities—I think I mentioned that before—because the depreciation on those is very small. Therefore, from the point of view of not having any loss on securities, undoubtedly they had better take securities with a due date, but I should not what I call definitely preclude them from taking other securities, such as their own; they have got their own which have not got a due date, and I do not know that you should rule them out.

3411. You put it very fairly, I think, that India ought to be prepared to save herself in a time of crisis, and not rest her weight on us. If all this gold is held on Indian account in England, is it held in London in addition to the gold that would otherwise be here?—Absolutely.

3412. And it is not taken into account in any market calculations here?—Not at all. It never appears in the Bank of England accounts as published, and it is quite incorrect to say that the market here takes it into any account at all. In dealing with this question there is one point I would mention; it is only a matter of detail, but I think as I am talking about the Gold Standard Reserve I should mention it. It is merely a question of the form of accounts, which I raised in 1909. In the Gold Standard Reserve the Indian Government put in their statement "Cash placed by the Secretary of State for India in Council at short notice." I have objected, and strongly objected, to that; it is a contradiction in terms to state that you have cash at short notice. Cash ought to mean coin, bullion, or bank notes. While I have never thought it makes very much difference in the accounts, say, of English banks, I raised the objection because I do not think a Government department ought to use words loosely, and the one thing about money on short notice is that it is not cash. I see they go on in the same way, but I call attention to it because I think it is wrong, and I do not think Government ought to use a wrong word in that sense. I have told them it is not cash, and, as a fact, there have been times when the India Council called for the money, and they could not get it; therefore it cannot be cash.

3413. One of the witnesses who has appeared before us seemed to think that securities, short-dated securities especially, were just as good for the purposes of this reserve as gold, and he presented an argument that what was needed in a time of crisis was not actual gold but what you call bankers' money, and that these securities fulfilled that purpose quite as well as gold; I gather that is not your view?—Certainly not—not in a time of crisis.

3414. Their realisability in a time of crisis rests on what, ultimately? Does it rest on the gold reserve of this country?—I should say it rested on the power of the Bank of England to advance money to buyers to pay for the securities.

3415. Therefore, in the last resort, on the gold reserve of the Bank of England?—Undoubtedly.

3416. Your argument I think is, as I put it just now, that in a time of crisis you do not claim that India should support the London market, but that it should not be an additional drain upon it, and should carry its own burden?—It should carry its own burden.

3417. I want to ask you a couple of questions about the paper currency system of India. Do you think it would be an advantage if some steps were taken to give it greater elasticity?—Not having any practical knowledge of Indian finance, that is a difficult question for me to answer. I do not quite understand the expression "to take steps to give it greater elasticity."

3418. The conditions under which notes can be issued are at present very strictly limited; would you allow the fiduciary portion of the issue to be extended by the Government of India under any circumstances or conditions?—That is a question which it is a little difficult for me to answer in this respect, that I do not know how far or how near India is getting towards a cheque system. As regards the fiduciary issue, provided you have got the fiduciary issue below an amount which can never go back to the Treasury, there is no objection to that fiduciary issue. The Act of 1844 fixed the fiduciary issue in this country at 14 millions. That has nothing whatever to do, as many people suppose, with the Government debt, or anything of that sort; it is simply an amount below which it was thought that the issue would not come back to the central institution; and that has proved to be correct. Owing to the cheque system, which of course has been an admirable thing for this country and a most admirable thing for all finance, the note issue of the Bank of England to-day instead of increasing is rather inclined to go back; it has practically remained stationary for the last four or five years. When you are dealing with India, which is, in a sense, from a banking point of view, an entirely new country, it must not be lost sight of that the introduction of a cheque system in India would probably materially reduce the note circulation, which has undoubtedly increased and is increasing. I took out the figures of the note circulation the other day, and as far as I could see, the active note circulation has more than doubled in the last 20 years. Therefore from that point of view you can see that you can safely give the Government increased fiduciary issue powers. But while I say that, if you are going to have a development of banking, and if you are going to have a cheque system introduced into India, you cannot then count upon an increase of the note issue in the future as you have done in the past. That, however, is a practical question on which you must ask those who know India, not me. I have been told—and I am only telling you what I have been told—that banking and cheques are increasing in India. I think it would be incorrect to have the fiduciary issue in India increased in a way that might ultimately lead to possible trouble. Of course when you are dealing with India, if it be found in the future that the fiduciary system should be reduced, well, you can reduce it. At the present moment I believe the active issue in India is about 44 crores, and the fiduciary issue is 14 crores—roughly a third. If you are going to get the note issue up to 60 crores, then you can say that that fiduciary issue might be increased to 20 crores, provided it is recognised that if the issue goes down, steps should be taken to carry out the principle of reducing the fiduciary issue strictly, because you do not want to have the slightest doubt upon your note issue. Here in this country if it had not been for cheques, probably the note issue of this country would have been as big as it is in France.

3419. If it had that effect could you maintain the conditions of the Bank Act? Suppose cheques had not come in to give, as it were, this aid to your fiduciary issue, would you not have had to increase the fiduciary issue?—I do not think so. Why should you? Over the course of, roughly, 70 years that have passed since 1844 this country would have got all the gold it wanted for its notes, and there would have

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been no reason for increasing the fiduciary issue. You could not get a big issue of notes against gold in this country, or any country, suddenly, but you can do so gradually. Over the 70 years you would have had gold accumulating in this country—35 millions or 40 millions up to 120 millions or 130 millions—just in the same way as they have in France.

3420. (*Lord Faber.*) I gather that the India Office broker sometimes appears to lend money below the market; could you say at all why he does that?—I do not think that he lends it below the market, but he always lends it below the bank rate. He gets, no doubt, the best rate he can, but practically I should say he always, as far as I know from the accounts, lends it, and therefore he has got to take the best rate he can get.

3421. Then it is really that the market know that he has got to lend the money out and will take what they offer him?—That is about it.

3422. If he held off the market and screwed it up two or three times and they did not know whether he was going to lend it or not, would that not help him in the long run to get a better average?—It probably would. If he would not lend below certain rates he would lose temporarily, but in the long run probably he would be recouped.

3423. I think the broker rather gave us to understand that he had a difficulty in lending on the special security which the Indian Government ask for, and that it was rather a tie that the Indian Government demands that security?—That is merely because the amount that he has got to lend being so large the security is not there against it. He would have no difficulty whatever if instead of lending 11 millions he was lending five millions; there would be no difficulty about the security then. It is only because he has got such big sums to lend that there is a difficulty.

3424. There is one rather important question. If India lends money on deposit to the big London banks, do you think it would be unreasonable for India to ask for security?—No.

3425. I suppose that all banks, even the best of them, at times do have to come to the Bank of England to borrow money temporarily, and then the Bank of England gets security from them?—Yes, should a bank borrow.

3426. As regards a central bank for India, I gathered from what you said that you thought the country was perhaps too vast for a central bank to do much good?—I do not say that. I say it is not a question that I can answer as I have no practical experience. What I felt was that you cannot argue from a small country like England, or, we will say, a country like France, and say that what suits that necessarily will suit India. I will not go beyond that, because I have not got the knowledge to form an opinion.

3427. (*Sir Robert Chalmers.*) You spoke about the Indian balances, or loans, as not being, if I caught your word rightly, good money. You meant, did you not, that it is used for purposes which are rather outside those of the London money market?—It is entirely outside what I call the ordinary English trade requirements. Indian money is no different to Japanese money, or any other money, but it has what I call nothing to do with British trade. It is a thing which is entirely outside.

3428. Then you raised the point that at times it tended to be lent cheap; and that was raised also by Lord Faber's question recently. Therefore, you concluded that those balances being in London tended to be detrimental to the Bank of England rather than beneficial?—That they have been loaned out in this way in London undoubtedly is so, but only at times; in the ordinary course of business they do not make any difference one way or the other.

3429. You do not agree then at all with the criticism which is advanced in some quarters that the use and location of those balances in London is a boon to London and a boon in proportion to the size of the balances?—It might be held that it is a boon to the

trader by lowering the rates of discount, but it is not a boon from the Bank of England's point of view of maintaining the gold reserve of the country.

3430. Which would mean the ultimate financial condition of the whole Empire?—We, rightly or wrongly, have taken upon ourselves the duty of maintaining a gold reserve in this country, and anything which conflicts with the action which we consider necessary at times—and it is necessary at times to stiffen rates to maintain that reserve or to increase that reserve—necessarily conflicts with the bank. I do not mean to say that it always conflicts with the bank, but it does at times.

3431. Take the case of the Gold Standard Reserve; you said that that should be kept in London?—I said such portion of that Gold Standard Reserve as is accumulated for the purpose of maintaining the exchange. I believe the Gold Standard Reserve is used for other purposes—at least, it has been; but that is its main object. In so far as that is accumulated for exchange, that gold should be held in London rather than in India, because you would have to send it over to London if it is going to be used, and therefore you may just as well hold it here.

3432. Do you take that view having regard to the interests of India, and without any reference to the possibilities of its being of any use to the London market?—Absolutely.

3433. You are looking exclusively to India?—I am looking at it exclusively from the Indian point of view.

3434. You went further, I think, and said, as regards that amount of the Gold Standard Reserve which is held in securities, it might be a distinct menace to the London money market?—If those securities had to be realised in a crisis.

3435. Whereas any gold here would be earmarked, and would not be a danger, because it would be outside the metallic reserve which is maintained by the Bank of England?—It would be absolutely outside that.

3436. As regards the coinage of gold in India, there would be no coinage in India if there were a coinage charge imposed in India, is that not so?—I do not know.

3437. I am asking you for your opinion. If you can get gold minted free in London, would you get it sent to the Indian mints if there was a coinage charge?—Not if the coinage charge exceeded the amount which you have got to pay for freight and the other charges to get that gold out there.

3438. Now, as to the currency notes and the fiduciary portion of the fund in India. The conditions of the issue department of the Bank of England restrict the bank to investment in certain very clearly defined securities, I believe—I am simply giving the Bank of England as a comparison?—Are you referring to the fiduciary portion of the Bank of England?

3439. Yes?—I believe that there are no restrictions as regards what we should invest in for our fiduciary issue.

3440. As regards the form of security that you put your money in, are you not limited?—There is nothing in the Act which restricts the bank. We have always invested in British Government securities, or securities guaranteed by the British Government; but I think I am correct in saying that the bank has done that because they thought it was a right thing for them to do, and that they are not restricted by law from any investment. You are raising the question of what I call the strict legal power, are you not? •

3441. Yes?—I would not like to give an absolute opinion without referring, but my impression is that there are no restrictions.

3442. Has the bank, so far as you are aware, ever contemplated investing part of the money belonging to the fiduciary portion in such things as trade bills or in advances to bankers?—No.

3443. It has never been contemplated?—Never. The profit on the fiduciary issue, as you are aware, goes to the country and it does not go to the bank.

3444. So you have never contemplated it?—Never—we should not dream of it.

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3445. A proposition was made before the Commission that in India a portion of the fiduciary investment should be in the form of advances to banks for short terms; are you prepared to express any opinion on the policy of that proposition?—Do you mean without security?

3446. No, not without security, but on Government securities deposited?—I should like to think that question over before giving you a definite answer. That would be in a sense merely an increase of its fiduciary issue, would it not?

3447. No, not an increase but a substitution. I will express it, as I understand the proposition, in the terms of this country: You would not buy consols but you would lend to a bank on the security of consols for a short term out of the fiduciary portion of the issue?—I think there would be objections to that, certainly there would be theoretical objections to it, and I am rather inclined to think there would be practical objections. If you like to put the question in writing I will consider it. That is mixing up what I call issue with banking.

3448. *Prima facie* you are not attracted to it?—*Prima facie* I am not in favour of it.

3449. You are not attracted to it, I said?—No. I am not attracted to it.

3450. (*Sir Ernest Cable.*) In reply to Sir Robert Chalmers just now I think you admitted that the lending out of India's balances was a benefit to the London market?—I admitted that the lending of large balances here puts down the discount rate, and usually is a benefit to the trader while it goes on; but the liability to have that money withdrawn is not a benefit to the market.

3451. And, of course, it is an unmitigated benefit to the Government of India to be able to lend out these balances here which they are unable to do in India?—They are getting interest undoubtedly on their money, but as to whether that pays them or not you must ask them the question, not me, because they have had to pay something for raising that money.

3452. I am talking of the superfluous balances—such balances as we have?—Yes, if it is merely a question of getting interest on superfluous balances. But I should like to ask this question. Is there any similar system in India—I am asking for information—to what we have in this country, under which surplus revenue goes to the redemption of debt?

3453. (*Chairman.*) There is no system exactly comparable to ours, but as I understand our witnesses, the surplus revenue is either used in the extinction of existing debt, or in the prevention of fresh borrowings. You have to start with the fact that the Indian Government is, as you say, continuously borrowing for reproductive or for capital expenditure; and the surplus, being used to redeem such short-dated securities as you spoke of in a part of your evidence, goes to prevent the amount of the fresh borrowing being as large as it would otherwise be?—My difficulty is to see why it is necessary for the Indian Government to have such big balances permanently here.

3454. (*Sir Ernest Cable.*) I was going to carry that one point further—that it not only benefits the London discount market, as you suggest, and also the Government of India in the way of revenue, but that in addition the reduction in the discount rate in the London money market does benefit the Indian trader, because it stimulates trade. There is therefore a third benefit to India judged as a whole; you would admit that, I think?—Low rates of money undoubtedly always stimulate trade, but it does not necessarily follow that there is a benefit; you have got to look at the ultimate result of these things. If you have large sums of money lent in this country which are liable to sudden withdrawal, then they are an upsetting feature, and probably the result of that upset may entirely extinguish the previous advantage.

3455. With regard to the State bank, I think you made use of the expression that the time is not ripe for it; do you mean to suggest by that that at some later date it might be advisable?—I think what I stated was that the fact that it had been before the Indian authorities and not adopted ever since the Fowler

Committee showed that in their opinion the time was not ripe. As I said before, speaking for myself, I have no special knowledge as to this question. I discussed it a great many times with Sir Edward Law, whom I knew very well, and I think on the whole he was in favour of it, but I think he was rather of opinion that the time was not ripe. Mind you, I am not giving you my opinion, because I have not got what I call a formulated opinion; it is only the opinion of those who have been out to India. I can tell you what is done here in London, and I can give you practical views of our own money market; but the other side, no, because I have not got the experience.

3456. You could perhaps give us your opinion as to whether, as India is developing and growing in resources, it might not be a very much more difficult project to carry out, say, in 20 years' time than at present?—It seems to me that you have got the nucleus in India of a central institution, because you have got three Presidency banks. I suppose it is quite possible to join those up if it is thought desirable to do so, and then you have got your one central institution. But there is a distinction in my mind between a State bank and a central bank. The State bank presumably means that the whole of the capital belongs to the Government, and therefore it has got to be run by Government, because the Government will not hand over a large sum of money to private individuals to run for them. Whether the conditions allow of a separate central institution, as you have got in this country, I cannot say. I can only say that, as far as a State bank goes, you have got the nucleus of it in your three Presidency banks.

3457. You expressly doubted also whether the State bank or the central bank would be a paying proposition. I should like to ask you as a banker of eminence whether it would be legitimate in a new bank of that sort to have a portion, perhaps a large portion, of its capital in debentures which might make the share capital quite a paying investment?—But you have got nothing to issue debentures on.

3458. On the capital as security?—A debenture is only a debt, and there is no security. What you want in India is a bank big enough to give security for the Government to bank with it.

(*Sir Ernest Cable.*) The Agricultural Bank of Egypt has a debenture debt, I believe?

3459. (*Lord Faber.*) But that might be founded on a particular class of security—the land?—An agricultural bank probably could issue debentures, that is to say, a mortgage upon something in its possession; but an ordinary bank has nothing. A debenture proper ought to be a mortgage, and therefore it is a liability, not an asset. I do not see how that is possible.

3460. (*Sir Ernest Cable.*) Debentures are a liability, and so is capital a liability; it is merely another way of putting it?—I beg your pardon. Capital is a liability undoubtedly, but the shareholder is responsible. The debenture holder is a creditor of the concern; the shareholder is part of the concern itself. The two positions are totally distinct. I am putting it this way—if I am a shareholder in the concern, I am responsible to the debenture holders.

(*Sir Ernest Cable.*) They have a prior claim certainly.

3461. (*Lord Faber.*) To put it in another way, the debenture man comes first, and he has got to be paid and all the capital has got to be exhausted to pay him?—That is so.

3462. (*Sir Ernest Cable.*) You made use of the expression with regard to India's gold reserves that she should bear her own burden; I suppose you mean by that that India alone would benefit by those gold reserves. I put it to you whether in a time of crisis the whole Empire would benefit by the stability conferred by those gold reserves of India?—I do not see exactly where the benefit comes in. What I say is, India should run its finances, so to speak, by playing the game off her own bat.

3463. (*Mr. Keynes.*) When you expressed the rather paradoxical opinion that the Indian cash balances in London were disadvantageous, were you speaking

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narrowly from the point of view of the Bank of England, or from the point of view of the whole of the London market?—I was speaking from the point of view of the Bank of England, and I hope I made that clear.

3464. Your remarks would apply equally to all international banking on a large scale, would they not?—To all international banking on a large scale where a withdrawal of that money would affect the conditions of the money market.

3465. I can understand that if London were to cease to be an international money market the life of the directors of the Bank of England would be a less anxious one; and you are merely stating this as a particular application of that?—I am asked here to give the view of the Bank of England, and I am giving you the view of the Bank of England.

3466. And the view of the Bank of England is that any increase in the extent to which London is an international money market makes their time a more anxious one?—Any increase in the volume of transactions which pass through London for which the London money market is responsible, makes the maintenance of an adequate gold reserve here all the more important.

3467. But you would not deprecate the extension of England's liabilities in that way, would you? You would not wish London to be less an international money market, would you?—No; I want to see England maintained as the international money market, and that it should have the position it holds to-day.

3468. Then you would be sorry rather than glad if India was to give up holding its balances here?—From the point of view of the Bank of England I would rather they were what I call kept within more moderate limits; that is all.

3469. From the point of view of the position of the money market, you would be sorry?—I should not be sorry; it is merely a question of size.

3470. Would you be glad?—From the point of view of the Bank of England, from the point of view that London should not be liable to be drawn upon for very big amounts, I should be glad if the Indian balances were kept within more moderate limits. They rise to, I believe, 18 millions altogether. I am not clear what was done with the 18 millions.

3471. (Chairman.) I think we have had it in evidence that the 18 millions, those very high figures, were due to what it is hoped may be found to have been rather exceptional circumstances, and partly also to under-estimating the revenue?—I quite agree, but I do not know what was done with that 18 millions here. As far as I can turn it up at the Bank, the loans through their broker have never much exceeded 11 millions; I suppose the balance all went to the banks, and there was no security for it.

3472. There were loans to the banks as well?—We check all the securities at the bank for the India Office, and therefore, we know the amount of the securities. I know the maximum amount of securities deposited at any one time, and I know that the maximum amount of loans to what I call the market have not exceeded something between 11 millions and 12 millions; that is all.

3473. (Mr. Keynes.) I only wanted to get the point clear that there is nothing peculiar to India about this, and that in general you deprecate London doing international banking business on a very large scale?—No.

3474. (Chairman.) I think you did not deprecate London doing international banking business on a very large scale, but you said there was a danger if these large amounts were suddenly withdrawn?—I say that that is a danger which, if it is possible to avoid it, it is well to avoid; but as long as London remains the international money market it has got to shoulder the burdens as well as the advantages of that. Mr. Keynes' view apparently is that I deprecate London being an international money market; I absolutely correct that.

3475. (Mr. Keynes.) I understand there is a disadvantage, but I do want to have your opinion as to whether on the balance it is not an advantage to London to put itself into this position. It makes the problem

of the reserves more difficult, but is it for that reason to be deprecated on the whole?—My answer to that is that you have got to shoulder your responsibilities, and on the whole, it is desirable that London should remain the international financial centre of the trade and commerce of the world. What you are dealing with on this Commission is the question of Indian finance, and you are not dealing with anything more.

3476. Your second reason for rather disliking these large balances was that they sometimes had the effect of forcing the market rate down; I suppose that is true of all large lenders in the market?—That is right.

3477. They have not had a different effect in that way from any other large lender?—No.

3478. So that there again, from the the point of view of the market as a whole, you would not deprecate it?—No. It is quite desirable that London should have its lenders as well as its borrowers; it must have them.

3479. The Chairman asked you your opinion as to how far gold in circulation was available to meet a foreign drain, and I think you expressed the opinion that it was of some value?—Yes; I expressed the view that gold in circulation is of some value, because, if you get a famine, gold will not be so much wanted, and therefore it will come back to what I should call the bankers, and then it is available. What I stated was that it is better for India to hold gold which is taken, so to speak, at its face value, than to have it in rupees which have got to be melted and sold at their bullion value.

3480. When you gave that answer were you imagining a case in which India had hardly anything but gold, or in which gold was perhaps a fifth or a quarter of the circulation?—I was not imagining anything. I was only giving you the difference between having a gold circulation and a silver circulation.

3481. Do you mean by a gold circulation one in which nearly all the circulation is gold, or one in which about a fourth or fifth is gold?—My reply was quite independent of the proportion of the circulation.

3482. Then your answer applies even in the case where gold is a fourth or a fifth?—Certainly.

3483. Do you think that when money is returned from circulation it will be the gold rather than the rupees, even when the gold is only a small proportion?—They might come back in equal proportions; I cannot tell you. That is a question you must ask of somebody who has got Indian experience.

3484. Therefore, a certain proportion of the gold in circulation would not be available. The gold would not be available to anything like its full amount in a crisis, and you would not expect, if a fifth of the circulation was gold and a fifth of the currency came back in a time of crisis, that very much of that fifth would be gold?—I should imagine that if a fifth of the currency was in gold and four-fifths were in silver, it might be returned a fifth gold and four-fifths silver. I should say—but I do not know, as it is not a thing which I do know—that probably gold would come back quicker than silver, but that I cannot tell you. Gold is more used, I imagine, by those people who are European managers, and so on; but I really do not know, and it is not a question, I think, that I should answer. It is a question on which you should ask someone who has a knowledge of Indian conditions.

3485. You have not any opinion, therefore, as to whether in Indian conditions, gold, in circulation to the sort of extent I have suggested, would be available, and you did not intend to be expressing an opinion on that?—I only expressed the general opinion that if you have got a large amount of gold in circulation and bullion is required for export, gold is a better thing to export than silver, which has got to be melted down.

3486. With a large amount of gold in circulation, you say?—I am not troubling about the proportion of the amount in circulation.

3487. In the matter of the note issue, I understood that you are nervous about increasing the note issue lest at some not distant date a large number of the inhabitants of India should use cheques?—I am not nervous about anything, and "nervous" is not quite

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the correct expression to use. I was asked my opinion as to an increase of the fiduciary issue, and I gave you the point that if cheques are largely introduced into the banking system in India, the note issue would not increase in future years as rapidly as it has done in the last 20 years.

3488. Then you did not mean to be expressing an opinion that that was likely to happen within the lifetime of those who are now alive?—I do not express any opinion on Indian matters, because I can only give you what is the experience here in London.

3489. The Chairman put the question to you that if cheques had not been developed in England as they have been, and if we had used notes as they do in some foreign countries, the system of note issue by the Bank of England would have had to be modified; I understood you to say no, and that we should have gone on just as they have in France?—Yes, that is my opinion.

3490. But you would not maintain that the method of regulating the note issue in France is the same as that in this country?—The conditions of the two countries are distinct, but the method of regulating the fiduciary issue of notes in France is under definite Acts of Parliament, just the same as ours. Of course, the two Acts of Parliament are quite distinct.

3491. And their provisions are of quite a different kind?—That is so; so they are in Germany.

3492. If in England notes were to be used on a large scale, and the Act were not altered, we should have to hold gold almost up to the full amount of the notes?—You have to hold gold to-day for every note issued above 18 millions odd—I can give you the exact figure if you want it.

3493. But that is not the case in France?—That is not exactly the case in France, but I am not prepared to give the Commission any information on that without referring as to what the exact conditions of the note issue in France are.

3494. Is there any note-issuing country in the world which regulates its note issue on the same system as the Bank of England?—I think not.

3495. So that there is some experience for thinking that in a note-issuing country some different system is desirable?—Of course, I think ours is the best; therefore I do not think any different system is desirable.

3496. Do you think that the business of the world could be done if all banks adopted the Bank of England system?—The business of the world would be done. Whether it would be done on the present scale is another matter.

3497. Sir Robert Chalmers asked you your opinion as to holding some part of the cover for the note issue in bills. Is there any country in Europe except England which does not use bills as a part cover of its note issue?—I cannot tell you.

3498. You do not know of any country which does not use bills?—I am not sufficiently conversant with the conditions of all the countries in Europe to be able to answer that question, but I can get the information if you want it.

3499. You objected to the Secretary of State speaking of having cash at short notice. Was your objection purely to the terminology?—It was merely to the terminology; that is all.

3500. Your objection was purely to the terminology, and you do not maintain that he ought not to have money in that form?—No, the objection was purely to the terminology.

3501. So long as the money market is solvent would you hold that money at short notice is, from the point of view of the Secretary of State, as good as cash?—I do not think you put the question quite correctly. You say as long as the money market is solvent; you mean as long as the individual members of the money market to whom the India Office lends money are solvent.

3502. Yes, that is so; as long as they are solvent, then the money at short notice is as good as cash, is it not?—No, certainly not. It is not cash, and therefore it is not as good as cash; but from the point of view of investment purposes or proper security it is just as good as the investment in the security itself.

3503. If money is lent for four weeks and the man to whom it is lent is solvent, then at the end of the four weeks it is as convenient to the Secretary of State as if he had held the same amount in sovereigns?—You have given the premise that the gentleman is solvent.

3504. Yes?—But that does not always prove to be the case.

3505. (Chairman.) Even then the Secretary of State has to wait for the four weeks?—Yes. I made that remark because—you can get it in the India Office, and it is not for me to give it to you—there have been, I know, within recent times, two failures in which the India Office did not get their money back.

3506. (Mr. Keynes.) I was wishing only to arrive at this distinction—from the point of view of the Bank of England and the market as a whole, they would obviously be in a more comfortable position if the Secretary of State had real cash rather than money at short notice, but it may make more difference from their point of view than it does from his point of view?—That is all dealt with by the amount, whether it is to be five millions more or less than you are going to hold in the Gold Standard Reserve. These loans at notice are minor factors in the situation.

3507. There are one or two points of detail arising out of some evidence we have had before us that I should like to ask you about. We were told that only such securities are accepted against loans as are bearer securities, or are inscribed at the Bank of England, and that the reason for that was that the authorities of the Bank of England had no means by which they could satisfy themselves that the transfer had been made unless it was a security of that class. Do you think it would be possible to have a simpler machinery so that stocks inscribed at other banks could be taken?—No. If you mean as far as the India Office is concerned, that is a question they must answer themselves, not I. You cannot have simpler machinery for the stocks inscribed at the Bank than we have got now.

3508. That is not the question I was asking. We are informed that the cashier to the Bank of England would not be satisfied that the transfer had been made into the name of the Secretary of State unless the stocks were inscribed at the Bank—that if they were inscribed at some other bank he could not satisfy himself of the fact?—No, he could not, because he would have no means or knowing that the transfer was in order. At the Bank of England he can go over to the chief accountant and satisfy himself that the transfer is in order, but at any other bank he cannot do it; he cannot walk into another bank and ask to see the books.

3509. (Chairman.) As a matter of security, would you consider it adequate if in such a case you received from the bank at which the stock was inscribed a certificate that it had been transferred to the Secretary of State?—That is a question of which I should require notice. It may be a very technical thing, but that I could not tell without looking into it. All those questions about transfers are very technical. I imagine that probably the Bank of England would accept the guarantee of that bank, but I do not know whether the bank would guarantee; however, that is another matter.

3510. (Mr. Keynes.) There are two other points of a technical character which I should like to raise, at any rate, at this stage. The first is with regard to the management of the Rupee Debt. We were told that you maintained a separate office for that purpose at the Bank of England, that the amount of the debt is now much less than it used to be—about seven millions—and that the charge for that management works out at much more than 1,000*l.* per million. What are the reasons which make it necessary to have a separate office for the Rupee Debt as opposed to the other debt?—That is a question on which I should be willing to get you the answer, but I cannot answer it off-hand.

3511. The Accountant-General told us that there was an undertaking by which the India Office keeps a minimum balance of half a million at the Bank of England, and that they in fact often have to keep a

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good bit more there, and cannot lend up to the hilt, because the Bank of England will not allow them to strike their balance of the half million at four o'clock. They have made application to the Bank of England to allow them to do that, they say, but the Bank of England do not agree to it. Can you explain to us the reasons for that?—I ask for notice of that question. That is a technical matter which I could not answer without notice.

3512. (*Lord Kilbracken.*) You said, and I can quite confirm you, that the relations between the Secretary of State in Council and the Bank of England have been, apart from some recent incidents, altogether cordial and satisfactory?—Yes.

3513. Without going into any details, we may assume certain things have lately been done by the Secretary of State in Council which, from the point of view of the Bank of England, were not altogether advisable?—Only in reference to one matter.

3514. Do you consider these to have been in any degree the result of the financial methods and organisation of the India Office, or, as we are none of us infallible, were they simply a mistake on the part of those who happened to be then administering the system?—I think it was a mistake which, my own opinion is, ought not to have arisen.

3515. It may be assumed for the purposes of argument that it is a mistake?—It has got nothing to do with the general, what I may call broad financial questions of the India Office.

3516. It is a sort of mistake which is a result of the personal equation, and might occur in any conceivable system?—I think so. Of course, my strong objection to that matter was that it put a considerable strain upon the confidential relations between the bank and the India Office, as I informed the Secretary of State, because it is difficult to maintain the freedom of confidential relations where one party have for six months been interviewing the other and have not been frank, by keeping something up their sleeve because for reasons of their own they wished to do so. It was a breach in the confidential relationship; but it has got nothing to do with this inquiry, I think.

3517. I believe that no similar mistake affecting the relations between these parties had occurred for very many years?—I do not think it had ever occurred before.

3518. Have you any suggestions to make, either in consequence of this or apart from this, for the improvement of the India Office methods as seen from the point of view of the Bank of England?—No, I do not think so. I should think it is a kind of mistake that is not likely to occur again; I hope so.

3519. (*Sir Shapurji Broacha.*) The Gold Standard Reserve is established to maintain the par of exchange at 1s. 4d.; should not, therefore, the safety of this rate of 1s. 4d. be made as absolute as possible, so that at no time could it be disturbed?—Undoubtedly.

3520. And for that purpose gold is much safer than securities?—Granted.

3521. In 1907–8, although there was a partial famine, the Secretary of State had to use 15½ millions to maintain exchange. The American crisis was in 1907, and the realisation of securities was in 1908, when Consols were at 88 and money had gone to 3 per cent. Supposing they had had to realise those securities, not in 1908, but during the great American crisis of 1907, would it not have been much more difficult?—I think I told the Chairman that had the financial storm-centre been in London, those securities might not have been realisable at all, or, if at all, it would have been at a great sacrifice, and not only would there have been that great sacrifice, but it would have had a most prejudicial effect upon the financial world all round.

3522. It would have disturbed the great money market?—Yes.

3523. Suppose there were a great war in which England were involved, and there were panics in the markets of the world, as well as a famine in India, and the Secretary of State wanted money, if you had bankers' bills would not that be creating a little

disturbance in the money market?—I do not quite know what you mean by bankers' bills.

3524. I am thinking of the Secretary of State having liquid money which is not in gold but in short-dated bills, or bankers' bills, or whatever they may be called. I think you mentioned in reply to the Chairman that the Secretary of State has 1,700,000l. in short-dated bankers' securities?—In the Gold Standard Reserve they have got 1,730,000l.

3525. That is not really gold, is it? It is bankers' securities?—No, that is actual gold.

3526. Even if you have money at call, then the calling-up of that money at such times would create a sort of fear in the money market, would it not?—Undoubtedly.

3527. But if you had gold to give out, that would help the market?—Yes. Taking difficult times, if India has to draw, and has to pay for those bills in gold, that undoubtedly would be an advantage to London if India has got to give out that gold against its drawings. But the Gold Standard Reserve and the question of the India Office balances are two totally distinct things.

3528. I am not talking of balances; I am only talking of the Gold Standard Reserve, which could not be used for any other purpose than the maintenance of exchange at the par of 1s. 4d. India has a greater power of absorbing gold than many other countries, owing to the excess of exports over imports. She has taken about 27 millions this year, and she took about 23 or 24 millions last year, and about 18 millions the year before, and I do not think any country has taken so much gold on balance during the last three years?—Yes, but is it not probable that Indian imports of commodities will increase?

3529. I am talking of the present situation?—I understand; but if you want to found an argument on it you have got to look at the probabilities.

3530. If India were allowed to accumulate gold in the Gold Standard Reserve to the extent of 25 millions or 35 millions in solid gold, would that not be very helpful to the Empire at a time when we had a war, a financial crisis, and a famine all coming together?—I quite agree it would be helpful to have more gold, and the original idea of the Gold Standard Reserve was that the whole of it should be in gold.

3531. Would it not also obviate the difficulty of going to a foreign bank to borrow three or four or five millions if the Secretary of State had those millions in solid gold which he could supply on the credit of India at the Bank of England?—It might or it might not. Do you mean to say that the Bank could borrow from the Indian Government?

3532. Yes?—I should not like to alter our system in this country.

3533. I am talking of the time when the standard gold reserve balances of India are in liquid gold, and perhaps the Bank of England may have to stop payment in gold. Would it not be very useful then that that gold should come in for use? Remember the Secretary of State is master of the Indian finances, and the Government of England is the master of the Secretary of State?—Yes, but I do not want the London money market or the Bank of England to be in any way influenced by the fact that it has got a lot of earmarked gold.

3534. It is earmarked in a way for the maintenance of exchange?—That is so. I do not oppose in any way the Gold Standard Reserve being invested in gold solely, but I quite understand that the Indian Government wish to make some profit out of it, and that you only want to accumulate gold sufficient for practical purposes. The Indian Government have at last realised that they ought to hold some gold, but they had not done so up to last year.

3535. A large amount of solid gold would save us, or put us into a position of absolute security for the maintenance of exchange in the worst of times, even when we had war, famine, and panics all coming together?—To the extent that it is such a sum as is more than India requires in any one year.

3536. You have been talking of a State bank, and I understood you to say that the Bank of France does

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business efficiently, but it is a small place to which it is attached; so does the Bank of England do its duty efficiently, because it is a small place to which it is attached. Suppose the Bank of England or the Bank of France were given the duty of doing the work which the Bank of Germany does, the Bank of Italy does, the Bank of Russia does, and the Banks of Norway, Sweden, and Belgium do; would you say that the Bank of England solely or the Bank of France solely could do that vast business as efficiently as they now do it for England or France, as the case may be?—I am afraid I do not quite follow the question.

3537. I mean to say, if the Bank of England were the Bank of Europe, and had to do all the business of the Bank of France, the Bank of Italy, the Bank of Germany, and all the banks of other countries, do you think it could be so easily performed as it is now performed for this country alone?—That is a hypothetical question which it is practically impossible to answer.

3538. (*Chairman.*) I think what Sir Shapurji is suggesting is the difference between the area covered by India and the area covered by England. It is possible for one bank to do the work of the Bank of England in England because England is a country and not a continent, but it would not be possible for one bank to do the same work over a whole continent?—I do not think it is possible, so to speak, in the same way, but I should not like to state that it could not manage currency matters.

3539. (*Sir Shapurji Broacha.*) I am talking of the whole business, currency, financing, lending money to industry and commerce, all the vast business that the Bank of France does now, even to discounting 500-franc bills, or 125-franc bills, or even 5-franc bills. If she were given the management of the whole of Europe, would she be able to manage that work as efficiently as she manages the work now for France alone?—I should think not.

3540. I ask you because there is more similarity between the people of this country and the people of Italy and the people of Germany than there is between the banking classes in India; and India, I say, is as large as Europe?—Your inference is—?

3541. That it would be too large a business?—That a State bank or a central bank in India could not do it efficiently.

3542. That is so?—I carefully avoided giving a pronounced opinion, because I said I had no practical knowledge of the conditions in India.

3543. There are now in the Bank of England, as I see by to-day's news, 18 millions belonging to the Government, the municipalities, and other classes, all under the control of the Government; if, instead of the Bank of England holding 18 millions of Government balances, the Government were to put them into vaults at Whitehall, would not the public complain that they were being deprived of the use of the money?—Undoubtedly. The fundamental theory in this country is that money collected by taxation immediately goes back to the use of the country.

3544. If the Government of India had 25 crores or 18 millions or 17 millions sterling in the Treasury vaults, and did not lend that money out—that is, if all that money were swept in and not given out, would not that make the money market more difficult?—That is an Indian question, is it not?

3545. I am putting it in the general way of the world?—In the general way of the world, yes.

3546. Then is it not the fault of the Government that the money markets are dear at one time and cheap at other times? We were told yesterday that you cannot lend money to-day in India at 2 per cent. on Government paper, and yet sometimes it rises to 8 per cent. If that money were locked up within the walls of Government buildings, then in the case of the money market in India becoming dear, should the Government be blamed for it or not?—I have no opinion to give because I do not know what happens.

3547. I suppose you have no idea, if there were a State bank or a central bank established in India, where it should be placed?—No.

3548. You have told us that Indian money here, as it is not of a permanent character, is not very helpful. At present I think you said there are 11 millions of the Secretary of State's money on loan in London?—It may be more. I am only telling you what has been lent at the present moment by the Government broker.

3549. But that cannot be compared to Japanese money, because the Indian money is bound to be spent in this country sooner or later. Japan might call up her money, and Russia might call up her money, but the Indian money must be used here solely. It gradually goes out just like a banker's or a merchant's fund for goods, or something like that; so it is not the same kind of money that the Japanese money is, which would disturb the market when it is suddenly taken away in large bulk?—That may or may not be so. If the money is wanted in India I imagine it would be sent to India.

3550. No; it is not money which can be in any way dangerous to the London market, because it is London's money in one respect—at any rate, it cannot be as dangerous as Japanese money or Russian money?—I think that is true. The control of the money after all is in this country.

3551. I think Indian credit has gone down in this country in the last two years about 10 per cent., and the $3\frac{1}{2}$ per cent. Sterling Rupee Loan I see is now about $86\frac{1}{4}$ or $86\frac{1}{2}$?—Those are figures which can be very easily worked out.

3552. I think the present is a time when you cannot borrow much money for India if you want large amounts of a sudden, as at one time the Secretary of State could have done?—My own opinion is that the feeling about Indian loans, and so on, is that they are a little bit too much under Government control. If there were bigger facilities given for private enterprise in India, India would probably get money more readily. I am only giving you what I call the current opinion; I have no opinion to offer myself.

3553. If loans were limited to a fixed period I do not think the same difficulties as I have pointed out to you would obtain?—That is what I have said.

3554. (*Sir James Begbie.*) Speaking about the Gold Standard Reserve, I understood you to say that you think it should be held in London, because, if not held in London, gold would have to be remitted home to be drawn upon from India?—That is in the case in which the Gold Standard Reserve has got to be used for the maintenance of exchange.

3555. But there is no reason why a draft should be drawn in India on London to maintain exchange; it would be the same thing if gold is kept in India and issued in India, would it not?—I do not think it would have the same effect on exchange if the gold were held in India and issued in India.

3556. Not if it were issued in India for export?—For export, yes. As I have said, the reason for holding the gold here is that drafts presumably will be drawn on London, and therefore that export of which you speak simply means that the gold will have to come to London. I do not think, for instance, that India could draw and sell bills on Australia. I am looking at it from the practical point of view. When you sell bills in Calcutta I think they are drawn on London, and while London retains its position as the financial clearing house of the world, bills will be drawn naturally on London. Therefore, if, for the purposes of maintaining exchange, that gold has got to be used, the gold will have to go to the place on which the bills are drawn.

3557. If bills are drawn?—Where you maintain exchange it will be by drawing bills.

3558. The usual method is to use gold for international balances, is it not?—The usual method is, when exchange gets up to a point at which it is cheaper to ship gold, that gold will go. The question is one simply of freight and insurance, and when the exchange rises to a point at which there is a margin above the cost of freight and insurance, gold will go.

3559. Now I want to ask you one question with regard to the silver purchases of last year. We have

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had it stated in evidence that the silver purchases last year, totalling over seven millions, were effected from the India Office balances, which may have been replenished from the proceeds of the Council bills sales, although the Secretary of State had the option of using the part of the Indian Reserves which is in sovereigns. The question I want to ask is this: Would it have made any difference to the London market if the purchases last year had been carried out by the use of sovereigns taken from the Indian Reserves rather than by money taken from the India Office balances?—The ultimate result would have been much the same. Do you mean to say that if they had paid out two millions of gold, for instance, and they had not sold the Council bills, the Indian banks would have taken that two millions and sent them to India; is that what you mean?

3560. No, I am talking about the way the silver was financed. It was financed, I understand, by payments from the India Office balances, whereas the actual gold reserves might have been used for the purpose?—Are you referring now to the Paper Currency Reserve?

3561. Yes; would it have made any difference to the London market if the actual gold had been used?—I cannot tell you. It depends upon the time of the year at which it was let out—whether the gold was wanted here or not. All shipments of gold here, I mean all increases of gold at the Bank of England—merely put the rate of discount down. It depends a good deal upon the time of the year that gold comes in as to the effect it has upon the money market.

3562. The purchases took place over about six months, I think, of last year, so that the payments would have been spread over, say, June to October, or November. Would not the London money market have been bettered by the receipt of actual gold rather than having to pay out the money from the balances of the India Office?—Are you dealing with five or six millions?

3563. It came to seven millions altogether, I believe?—Do you mean that they had five millions, say, of the Paper Currency Reserve, and the question is whether they should have paid out that gold instead of paying for it by Council drafts?

3564. Yes?—Five millions of gold taken into the London market would be exactly the same as having an extra five millions shipped from South Africa. That of course tends to keep the rate of money down. But what the practical result would have been, I do not think anybody could definitely say.

3565. (*Mr. Gillan.*) I should like to ask you one question about this matter of the gold mint. You said that if a gold mint were to be established in India you would prefer that sovereigns should be coined?—I gave you that as my own personal preference.

3566. I quite understand that preference, and I merely wish to ask if there is any very substantial drawback in your opinion in a smaller coin, say a 10-rupee Indian coin, being minted?—Personally I know of none. My reason for saying that I personally prefer the sovereign is that the sovereign is used practically throughout the British Empire, and so long as the Indian Empire remains a portion of the British Empire, I think it is a very desirable thing we should have one gold standard and not a considerable number.

3567. Why I asked you this particularly was that we have been told sometimes that a special Indian coin would, perhaps, go to a discount or would be of very little use in foreign exchanges, and so forth?—I do not think, as far as this country is concerned, it would make any difference what it was, because gold is not taken at its face value in international markets; it is simply taken by weight, and it does not make any difference to the weight of the gold whether it is a sovereign or whether it is a mohur.

3568. (*Chairman.*) It is sold by weight and fineness?—By weight and fineness solely.

3569. (*Mr. Gillan.*) That is why I asked you for your opinion?—People always think because a million

sovereigns have been shipped that they are taken as a million sterling, but that is not the case at all. If you go to the bank for 100l. they will not count it out to you; they will simply weigh it out.

3570. With regard to the Gold Standard Reserve, you said, in answer to the Chairman, that the Government of India had recently recognised the necessity of keeping some part of its reserve in liquid gold, and you thought the figure which they had in view, about five millions, was insufficient?—It is insufficient compared with the possible requirements.

3571. With regard to that point, I want to put to you a part of the correspondence on this subject. It may appear repetition, but I put it to you because so much importance has been attached to what was said that I should like to have your opinion. The Government of India suggested to the Secretary of State that a substantial portion of the reserve should be held in gold?—What paper is this in?

3572. I am quoting this from the correspondence between the Secretary of State and the Government of India. It says (*see Appendix V., despatch of Secretary of State, No. 82, dated 2nd July 1909, paragraph 8, &c., pp. 178-9*):—“(8) Your second proposal is that a “substantial portion of the reserve shall be held in “gold. (9) The object of this proposal is to ensure “that the reserve shall be readily available whenever “required, even though the necessity should arise at a “time of general financial difficulty in London. There “can, of course, be no possible doubt as to the “importance of this object; but I am not satisfied “that the adoption of your proposal, in substitution “for the present method of dealing with the reserve, “is required for its attainment. As a matter of fact, “I have carefully and constantly kept the same object “in view whenever I have had to decide as to the “disposal of profits on coinage or of sums accruing to “the reserve by way of interest. The plan which I “have followed has been as follows:—(1) To hold a “considerable portion of the reserve in the form of “high-class securities with a near date of redemption, “because cash can always be obtained at the shortest “notice, by sale or loan, for such securities in the “event of their realisation before maturity becoming “necessary. (2) To hold in addition such an amount “of stocks yielding a higher rate of interest (namely, “Consols) as I can count on being able to sell in time “to meet all requirements that should be met from “the reserve.” The Secretary of State adds, “As my “object has been precisely the same as that to which “your proposal is directed, the chief practical question “that can be raised (apart from those to be dealt with “in paragraph 10 below) is whether I have succeeded “in attaining it. I venture to think that the experience of 1908 shows that the answer to this question “is in the affirmative.” Then, at the end of that paragraph, he says, “I recognise, of course, that in “times of prolonged depression of Indian trade, “especially if accompanied by other adverse conditions, the realisation of securities to the amount “required to support exchange would require care; “but the operation ought not to be beyond the capacity “of the Secretary of State in Council and his advisers, “and I accept the responsibility for carrying it out on “occasion arising.” With regard to that experience of 1908 on which the Secretary of State was then building, I understand your opinion is that matters were much easier for him because the storm-centre was in America and not in London?—Undoubtedly.

3573. Perhaps to that extent it would be advisable to modify any judgment that is drawn from the experience of 1908? You see he is building on that, for he says, “I venture to think that the experience of “1908 shows that the answer to this question is in “the affirmative”?—He means to say that they can be sold, does he?

3574. That he succeeded in doing it in 1908?—I give you the answer, which is a very definite one, that if you have India in the position where it is necessary for her to sell large blocks of sterling securities in London, the suggestion is a dangerous one. Therefore—I have not seen this letter before—I should not endorse this recommendation of Lord Morley's. You see he

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says that he accepts the responsibility for carrying it out on occasion arising. The occasion, of course, may never arise. The occasion which I have got in view is the simultaneous existence of two conditions—one is a financial difficulty in London, and the other is famine or drought in India. Those two conditions may never arise simultaneously, but the occasion may arise, and when you are considering what it is desirable to formulate as what I may call the fundamentals of the financial policy of a great empire like India, you should not shut your eyes to a possibility.

The witness withdrew.

Mr. HARRY MARSHALL ROSS called and examined.

3577. (*Sir Robert Chalmers.*) Do you come here to-day to represent the Bengal Chamber of Commerce?—Not exactly. I come here by the suggestion and invitation of the Bengal Chamber of Commerce, but they courteously permit me freedom where my views do not entirely coincide with theirs.

3578. Would you be so good as to state to the Commission what your experience has mainly been in connection with this question?—I was a Calcutta export merchant. I was engaged in the export trade for 23 years, comprising a period of 11 to 12 years previous and a similar period subsequent to the mint closure. I was chairman for five years of the Jute Association of Calcutta, and chairman of the Wheat Association for a shorter period. I was also honorary secretary of the Currency Association, which agitated for the closure of the mints, under the presidency of the present Lord Inchcape.

3579. In that latter capacity you have had a large experience of an intimate character in connection with our subject?—I have.

3580. You have been so good as to submit to the Commission a statement of the evidence that you propose to give,* and I will take you through that to some extent. Beginning with the cash balances, you do not raise any objection, I gather, to the plan by which the Secretary of State gets his money across from India?—I raise no objection to that.

3581. Have you anything to say as to the total of the cash balances, joining those kept in India and those kept in London; first, as to their magnitude, is the total too large, in your opinion?—During recent years, it distinctly appears to have been unnecessarily large.

3582. How did the combined balances rise to so large an amount?—Partly through the surpluses of revenue, and partly of course by means of loans.

3583. As to the surpluses of revenue, have you got any remarks to make in elucidation of your view that they are too large?—My view is that the budget estimates of recent years have been unnecessarily pessimistic, and I support that view by reference to the memorandum on the India Office balances, Cd. 6619. The seven years comprised in that publication, ending with 1911–2, show that in only three years was a surplus budgeted for, a deficit being budgeted for in four years, and that while the deficits were fairly substantial the surpluses were paltry—331,400*l.*, 46,400*l.*, and 34,000*l.* The results of those seven years show, on the other hand, a net surplus of between 10 millions and 11 millions sterling. Looked at from the point of view of the seven years, as set forth in those figures, it seems to me that there has been persistent under-estimating, not necessarily intentional, but that has been the tendency.

3584. That is a stricture on the budget estimates to the extent to which the balances arose from the surplus revenues?—Yes, which necessitated, apparently, taxation which the event has proved to have been unnecessary.

3585. I will come back to that as a last point. The balance is made up not solely by surplus revenue brought across from India to this country, but also there have been capital sums raised by issues of loans,

3575. In fact, on occasion, the responsibility which this despatch accepted might prove to be too heavy?—It might be found that it was based upon——

3576. (*Chairman.*) A miscalculation?—Yes. I hope the Commission quite understand that any information we can give you from the Bank, like replies to those rather technical questions that Mr. Keynes put to me, I shall be most happy to have drawn up and sent to you, or to the member who wishes to have it.

(*Chairman.*) Thank you, we are very much obliged to you.

and that is a further department creating a large balance?—Yes, certainly.

3586. Given the money in India, do I take it your view is that the Secretary of State is right in selling Council bills freely, with a view to releasing rupees in India, and preventing accumulation in the hands of the Government of India?—Unquestionably.

3587. That tends, in your judgment, to prevent the detriment of the money market in India?—It restores to circulation the currency abstracted from it.

3588. Would you like to say anything further as to the retention of large balances for long periods, and have you any suggestion to make as to the use of any surplus in the reduction of debt?—I think that surpluses in the Indian budget should be treated as they are supposed to be treated in the English budget—as a sinking fund for the reduction of debt, primarily floating debt, and in case of absolute need by the purchase of stock, exactly as the English Government would purchase Consols.

3589. You are referring to the old sinking fund in this country and drawing your argument from that analogy?—Yes.

3590. Is there this difference: that debt is paid off in this country on balance, whereas in India the position is rather different, is it not, as India has a Government that is always borrowing?—I agree.

3591. So far as surplus revenue is brought across from India to London and is not used for the specific purpose of paying off debt, it is yet used, is it not, for the same purpose if it ensures the diminution of new debt?—Certainly. In the case of India, might I cite an example? I think that Sir James Westland applied his heavy surpluses after the mint closure, due to the holding up of Council bills, to two purposes—one to railway construction and the other, I think, to the avoidance for two years of rupee loans. That would be similar to paying off debt.

3592. You are aware that in this country the surpluses have been used to prevent new borrowing, and to that extent there would be an analogy?—Yes.

3593. If you were to use the surpluses exclusively on, perhaps, pedantic lines for the reduction of the existing debt, it would mean that you would have to issue new stock—pay off with one hand and raise new debt with the other hand?—That would be inadvisable provided the new stock were shortly to be raised, but if there was a probability of the stock not being required for two or three years, then there is a different aspect to the question.

3594. It would be a question of time?—Yes.

3595. Leaving out of account the question of time and assuming the money to be here, what use would you make of the money in London pending the time which we have assumed to be near at hand for meeting expenditure? Have you got any objection to the practice of lending money out in the money market?—No better use could be made of it.

3596. Coming to the collection of revenue, the old doctrine used to be that it was advisable to leave money in the pockets of the lieges to fructify; you know that doctrine, of course?—Yes.

3597. Is there any particular difference between the position of India and that of this country in this respect, that taxation is levied to a great extent at one particular season of the year, and so tends to enforce

* See Appendix XIX., page 543.

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a greater pressure on money markets?—That was the case in my time.

3598. It is so in this country, is it not, too, when the income-tax is being collected?—It is; but owing to the action of the Bank of England, I believe the funds are released much more rapidly to the market than was apparent in India in my time.

3599. (*Chairman.*) In the case of England, we are always over-spent at the first part of the year, and therefore the moment we have collected the taxes they are paid out in redemption of the borrowing?—Which is in itself a reduction of the floating debt.

3600. In the case of India, does the time of the greatest collection of revenue come at the beginning of the financial year, or at the end?—The greatest pressure, owing to the abstraction of taxation from the current circulation, is in the early months of the calendar year, or rather the later months of the financial year.

3601. Is the Indian Government borrowing to pay its way in the early months of its financial year, and then paying off that debt in the later months when the revenue comes in, just as happens in England?—I do not know that the Indian Government borrows as the English Government does—at any rate not in India. The Secretary of State borrows in England.

3602. (*Sir Robert Chalmers.*) Your point is that the collection of revenue tends to create stringency?—It did, and I believe still does, according to what I have read.

3603. Have you got any suggestions to make by which you think it would be possible to render the money in the treasuries in India available in any form for the relief of the Indian money market, say, by means of loans to banks or otherwise?—Of course it is released now by the sales of Council bills and transfers, but necessarily not always with perhaps sufficient rapidity. It might be released by way of loan to the banks, Presidency or otherwise, possibly, on security in India.

3604. What sort of security?—Undoubtedly Government paper should be a security. What further security might be acceptable is not a question I am prepared to dogmatise upon.

3605. What sort of rate have you in your mind that you would charge on behalf of the Government of India to the banks or other bodies to whom you would lend? Suppose the bank rate at the beginning of December was 7 per cent., what would you do as regards the rate that you would charge?—I see that the Secretary of State in a despatch to the Government in 1899 spoke of the rate being not below the bank rate. It seems to me that if the Government is to insist upon the bank rate, the temptation to employ Government funds for trade purposes would be lessened to the banks if they have to pay the maximum rate.

3606. Do you propose a lower rate, then?—I would not like to say how much lower, but I should think, to effect the purpose we have in view at the moment, it would be necessary to make it a profitable undertaking to the borrowers.

3607. Would those borrowers in your judgment properly be the Presidency banks, or do you contemplate any other borrowers?—Provided the security is sound, I do not see why we should limit those loans necessarily to the Presidency banks only. The exchange banks, provided they desire such accommodation and would lodge an equal security, should be placed on an equal footing.

3608. You contemplate banks?—There is nothing in India, I think, to compare with our big financial houses, and therefore I should say banks in India.

3609. Does it strike you as a possible danger in such a system that the banks might come to count on this as money that they could always get at that time, and would discount the advantage in advance?—I am afraid the mercantile and banking mind would always count on anything that they saw a prospect of being sure to get; but I do not think there would be any danger connected with their counting upon such accommodation, always provided they were prepared

to return the loans duly. In the past we know that was not the case; the Presidency banks have practically expressed inability to return loans in the past.

3610. You are aware of cases, are you; there was one in Lord Northbrook's time, I think?—I am aware of cases. They have been cited and published. Hence I believe the Government established reserve treasuries because of that.

3611. It would be very essential that the Government of India should be certain of getting back its money?—Undoubtedly.

3612. To the day, if it needed it?—Undoubtedly. In connection with that I would say that the capital and reserves at the banks nowadays are very much greater than they were in those days, and possibly the same difficulties would not be encountered again.

3613. Coming now to the sale of Council bills in order to provide for the home charges, the present practice of the India Office in selling its Council bills is familiar to you, I presume?—Yes.

3614. I think you have some alternative method to suggest; would you be so good as to state the methods; and the objections you see to them?—I have none myself, but I am speaking of the alternatives which have been suggested in various quarters, and which I have ventured to consider in my précis of evidence (*see Appendix XIX., page 544*). One alternative which has been urged is that the Indian Government should pay its home charges through the medium of certain Indian banks. To that I would lodge the objection that jealousy would be aroused by the selection of those banks and by the allocation of their respective proportions of the business. Such selection and allocation would not improbably give rise to the suspicions and innuendoes which have attended the distribution in loans of the India Office balances. Again, I think if the remittances were made at the best rates obtainable, without regard to the amounts remitted through the respective banks, the alternative would merely be equivalent to transferring the auction from London to India.

3615. We have been told that the Secretary of State sells his Councils up to the total demands of the trade, subject always to the proviso that his sales should not prevent a sufficient amount of gold going to India. Do you think he is right in doing that, and do you think his practice is sound?—In selling to the full extent of the demands of trade?

3616. Yes?—I think that he is entirely justified in selling freely and to the full demand of trade so far as his balances in India permit him to do so. The objection I would raise to selling more than those balances permit is, first, that he is under the Gold Note Act, which gives, I believe, the right of ear-marking deposits in London and issuing rupees from the Paper Currency Department in India at specie point. And apart from that, I should object to him selling below the specie point. It is difficult, I admit, to say what the specie point always is, but I should object to his selling new rupees, new coinage in fact, below the equivalent of the specie point. In other words, the Secretary of State, or rather the Government of India, has notified that the new rupees would be issued against deposits of sovereigns from the mints, and it also issues notes of the Paper Currency Department at the same rate of 15 rupees to the £. When it has done the latter, for every 15 rupees it has the equivalent sovereign, we will take it; but when it issues new rupees it does not hold the equivalent sovereign—it has only got the third of a sovereign. That is where I draw the distinction between the free sale of Council bills at any price against balances down to the minimum of 1s. 3 $\frac{3}{4}$ d., and the sale of Council bills against new coinage.

3617. You were associated, you told us, as honorary secretary, with the Indian Currency Association, and you can speak for 20 years; would you say that the change from the silver standard to the present standard has been a boon?—Unquestionably.

3618. Do you hear of any desire, or do you express any desire to us, for a change in the contrary direction?—Towards reopening, do you mean?

3619. Yes?—That cry has subsided.

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2620. You think it has subsided?—Quite.

3621. I think you quote Mr. Webb to the effect that more people in India were able to use gold coins now than they were 15 years ago?—Yes. If I may, I will read you the extracts I have made. In 1898 Mr. Webb published a memorandum on the Indian currency in which he expatiated on the poverty of India in the following words: "The poverty of the great mass of the people renders a gold coin or gold in any form entirely beyond their means. . . . The native moneylenders would continue to receive 12 per cent. to 75 per cent. per annum for ordinary temporary accommodation, and they would not, and could not, use and demand that gold capital the assumed advantages of which are one of the main foundations of the present proposals to abandon India's silver standard. . . . The gold standard, with or without a gold currency, could not, for the reasons already given, prove otherwise than injurious to the commerce of India, to the revenues of the Government, and to the well-being of the great mass of the population." That was written in 1898 at the time of the Fowler Enquiry. I read that as evidence that in the opinion of the writer the country was then in a very poverty-stricken condition and quite unable to use a gold currency. But in 1912, 14 years later, Mr. Webb wrote: "Probably more individuals in India are in a position to use gold coins than in the United Kingdom." The only inference I can draw from that is that in the interval the prosperity of India has put its people in a position to use coins which he said were absolutely unsuited and too rich for them 14 years previously.

3622. You use his testimony in corroboration of your own opinion?—Of my own opinion, yes.

3623. That the closing of the mints and the use of the gold standard has been a boon affecting the prosperity of India?—Undoubtedly.

3624. Coming now to the question of the use of gold coins, do you think that any special efforts should be made by the Government of India to encourage their use?—No, I deprecate such special efforts.

3625. What would be your view?—I think that the question of the use of a gold currency will be solved ultimately by the people of India, quite independently of any efforts that we can make either one way or the other; and I should prefer to leave it at that. I should certainly deprecate any arbitrary measures for preventing the flow of gold to India. On the other hand, I do not think it comes within the province of the Government to depute its officers, as has been done—or, rather, I will not say "depute," but illustrations have been given of Government officers having used their influence to circulate gold coins, and I do not think that is quite what should come within the province of the Government.

3626. You would leave it to the desires of the people?—Certainly.

3627. And to the movements of trade?—Certainly.

3628. A certain number of people hold that the use of gold coins is a very extravagant form of currency, and that the use of tokens, or of paper currency, is a more economical and scientific mode of currency; would that be your feeling on that subject?—Distinctly so. I think the cheaper the form of internal currency the better. So much is saved, and the gold could be conserved for the purpose of securing the external exchange value of the internal currency.

3629. You would not bring any pressure, therefore, to bear on the people to use gold, and you would follow their desires, but you would be rather more pleased to see non-gold used as the actual currency from hand to hand?—I think, really, if I may speak broadly, that the nation which exchanges its valuable products for a lot of metal which it can dispense with is simply wasting those products.

3630. I will take next, if you please, the question of the Gold Standard Reserve. I should gather from your previous remarks that you would regard the maintenance of an adequate Gold Standard Reserve as

being the most vital thing to India?—Under the present currency system, yes.

3631. Up till now that Gold Standard Reserve has been accumulated in the way that you are familiar with, and has been subject to no statutory sanction in any way. Has the time arrived, in your opinion, when any regulations could be drawn up for the government of the Gold Standard Reserve?—With regard to its size, or its regulation only?

3632. Its regulation?—I think it distinctly advisable that something of that nature should be recommended by this Commission. Might I just say why I think so?

3633. If you please?—In the budget statement of 1908 Mr. E. N. Baker, when defending his refusal to issue gold freely in the crisis of the previous year, made use of some remarkable words concerning the Gold Standard Reserve. He said, "The time and method of the employment of the gold standard reserve must be at the discretion of the Secretary of State by whom the reserve is controlled." I venture to submit that this is a most dangerous dictum. The reserve should be held under regulations which would bring it into use automatically, and the public should know clearly what the regulations are. Its transfer to the care of a bank or to a special department created by legislative act, with strictly defined powers, would be greatly preferable to leaving its use dependent upon the will or whim of the Secretary of State for the time being or of his financial advisers.

3634. Have you got any general indications that you could suggest to the Commission with regard to the content of the regulations which you have in mind? What sort of regulations have you in mind?—I have not presumed to lay down regulations, which I thought should be preferably left to this Commission.

3635. I will give you an instance. Would you take, as one of your suggested regulations, that exchange should be sold freely at $1s. 3\frac{3}{4}d.$?—I would say more than that. I think that the public which has invested gold in the purchase of rupees is entitled to have that gold returned at the gold export point, which is $1s. 3\frac{3}{4}d.$

3636. That would be one of the regulations?—Yes.

3637. Have you any others in your mind that you could mention?—Another would be that, instead of selling the sterling drafts on one day per week, as I think, if I recollect rightly, was done in previous cases, and advertising a certain fixed sum, as is done with Council bills at this end, I venture to think that anyone should be able to purchase a sterling draft on any day of the week for export purposes, so that he may transfer his capital or his money for longer or shorter periods, or permanently if he wishes it, at that minimum rate. I think that with a properly constituted reserve in London of sufficient strength, that might be done with advantage.

3638. That would be the primary regulation, then, that you have in mind?—Yes.

3639. Free sale at a fixed minimum figure?—Yes.

3640. And the use of the Gold Standard Reserve to be restricted exclusively to the purpose of maintaining exchange?—Certainly—for remittance purposes, in my opinion.

3641. Have you any remarks to make on that point, on the subject of the six crores in silver?—At the time that those six crores of silver were substituted for four millions sterling in gold, I did make comments publicly at a bank meeting in London on the inadvisability of that. It was reducing, and, as we know from subsequent events, reducing at a very critical time, the Gold Standard Reserve. Under the new regulations which have lately been promulgated by the Government, it has become not a silver branch but an Indian branch of the Gold Standard Reserve, and I can quite see its usefulness for relieving the seasonal demand for silver which we know occurs. In other words, my objection to a certain portion of the gold reserve being kept in India in silver is lessened in consequence of the new regulations.

3642. You can see its utility to the Government of India, but do you retain objection to those crores

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being part of the Gold Standard Reserve?—No, they are so no longer, really; they are an Indian branch of the Gold Standard Reserve, and are practically used for purely Indian purposes.

3643. (*Chairman.*) You mean that, in effect, they have become part of the Currency Reserve?—Practically, because they are interchangeable with it. They should not, in any case, be counted in the amount which may ultimately be suggested by this Commission as the actual Gold Standard Reserve held in London.

3644. (*Sir Robert Chalmers.*) It is gold passed into silver, and no longer gold in reserve?—Yes.

3645. Passing now to the composition of the reserve, that, at the present moment, as you know, is partly in securities and partly in metallic gold?—Yes.

3646. You attach primary importance to metallic gold, I understand?—I would not like to say primary importance, but I think that a certain proportion should be held in metallic gold.

3647. How much do you think should be held, and how would you arrive at your figure?—As to size or proportion in gold, or both?

3648. Take both?—As to the size of the reserve, if we may judge by the extent of the drain upon it in 1907–8, the reserve is at present ample, taking into account the very large amount of gold in the Paper Currency Reserve, which practically doubles the Gold Reserve. I attach more importance to the resolution and confidence with which the Currency Scheme is backed than to the mere size of the reserve. A comparatively small reserve, backed by a resolute policy, would give the public more confidence—I attach great importance to confidence in this scheme—and do more to prevent or allay panic than a larger reserve with a continuance of the irresolution and vacillation which have often been apparent in the past. I do not think that the reserve should be unlimited. Its size should be fixed on some reasonable basis, not merely arbitrarily. Its fixture arbitrarily is merely guesswork. It might be fixed on a basis of experience, or of analogy and comparison. In the former case we could go upon the actual loss of gold in the crisis of 1907–8, say, from all sources, about 17,000,000*l.*, or a little more, I think it was (the actual export or transfer of gold out of India was only about 13,000,000*l.*, that is to say, 8½ millions, I think, sterling drafts on the Gold Standard Reserve, and a reduction of about 5 millions or 5½ millions in the amount of gold held in London against the Paper Currency Reserve, that is the way I estimated that), plus the Council bill shortage for the year, which, I think, was about 3 millions or 4 millions, speaking from memory. To this, a reasonable margin for apprehension should be added; for that, I should say, perhaps, 50 per cent. The public will watch the gradual falling of the reserve, and we should have something to give them ample security in that case. If we start on a basis of analogy and comparison, we may liken the liabilities of the Government under the scheme to those of a banker. It will be necessary to estimate those liabilities. The estimate of the rupees in circulation at the time of the Fowler inquiry was 120 crores. The Committee did not vouch for these figures, and I think that a serious attempt should be made to estimate the circulation, even roughly, now. I use the word “serious,” because I have often heard comments on the unreliability of the statistics collected throughout India, very often from Indian sources, as to the composition of the circulation. An estimate of 200 crores would give about Rs. 7 per head of population, roughly. Now the English joint stock banks keep about 23 per cent. of their liabilities in cash, at the Bank of England, at call, and at short notice—that is, including their capital and reserves in addition to their other liabilities, it works out to about 23 per cent. A like proportion gives 46 crores, or, say, about 30,000,000*l.* as the size of the reserve against rupee liabilities. Of this 23 per cent., the English banks hold about half in actual cash or at the Bank of England, which is the same thing. This might serve as the basis for estimating what proportion of the reserve should be kept in actual gold. It must not be overlooked that the English banks’ figures are “window-dressing” figures, and that the working percentages

are probably smaller. That is simply a suggestion which I venture, with all respect, to lay before the Commission. As to a mere arbitrary guessing at what we should have, 30, 40, 50, 60, or 70 millions, I can only say, so many minds so many guesses.

3649. Do you think the experience of 1907–8 to which you refer is necessarily a complete test for the future?—I think it was a very good one, because it is a curious combination; there was a world’s crisis and a shortage of crops.

3650. Was it a world’s crisis exactly? The storm centre, to use a phrase we have heard to-day, was not in London?—No, it was in America, but the strain was felt in London, as we know.

3651. The storm centre was not in London, and though you had a famine in India, you did not have a great commercial crisis at this centre, London?—That is so.

3652. To that extent, therefore, the past is not a full measure of what might be in the future?—Assuming a great financial crisis, we have not had experience of that in London.

3653. Would you be prepared to indicate, under present circumstances, the sort of amount at which you would keep the metallic gold?—If my basis were accepted of 30 millions, then I would go on what the English banks hold—one half—which would be 15 millions.

3654. You would go as far as 15 millions?—I would go to one-half because of my analogy. Similarly, if we go on the basis of experience, I do not think that anything less than 12 millions or 15 millions would be looked on as fulfilling the purposes which I think the Gold Standard Reserve might serve.

3655. Your argument is based, to a great extent, on your view that the amount of rupees in circulation is the primary factor?—Yes, a primary factor.

3656. And not the balance of trade?—“The balance of trade” with regard to India has always been a puzzling expression; “the balance of trade” is a puzzling expression anywhere, but particularly with regard to India. With other countries we will presume that they are exporting and importing, we will say, commodities, and when the trade balance is favourable they import the precious metals as currency; but in India it seems to be quite a different thing, and they import vast quantities of the precious metals, not as currency but as mere articles of merchandise. It is, therefore very difficult often to say what is the true balance of trade in India, whereas it is simpler in the case of other countries.

3657. You are providing a Gold Standard Reserve with reference to the total number of rupees in India?—Yes.

3658. And not those rupees only which actually impinge on exchange?—The actual rupees which will impinge on exchange at any given time will be those seeking remittance from the country.

3659. You are not dealing with those only, but you are taking all the rupees?—Because it is impossible to estimate what those rupees are. I estimate in the case of the trade balance proving unfavourable and a desire for remittance arising, that if you had a Gold Standard Reserve which would absorb that 23 per cent. of the total rupees in circulation, you would be going, backed if necessary by a loan, as far as you could in reason be expected ever to go.

3660. Some people might think further?—They might.

3661. Is your argument based on the total amount of circulation, or the total amount of rupees coined?—On the total amount of rupees coined. I would not necessarily say coined, because there may be many rupees which are held in hoards, and are not affecting circulation at all. When speaking of circulation I mean the actual amount of money or currency which is being employed for the purposes of trade at the time.

3662. You take the wider definition for the time for your purpose?—Yes.

3663. Leaving that, and coming now to the Paper Currency Reserve, you are aware that there is a certain amount of paper currency reserve which is held in gold?—Yes.

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3664. And that is held in London?—Yes.

3665. Would you be so good as to state to the Commission your views on that; do you think that right?—I think that if you have a properly constituted Gold Standard Reserve in London there will no longer be any need to keep any of your metallic currency of the Paper Currency Reserve in this country, also. You are having two reserves for one and the same purpose at present.

3666. Have you got any remedy to suggest?—The transfer of the metallic reserve of the Paper Currency Department to India.

3667. The gold of it?—Not at present, because the Government of India have been hampered by the accumulation in its Paper Currency Reserve of gold which will not pass into circulation; but that is what I am ultimately aiming at.

3668. Do you contemplate, in those ultimate aims of yours, any transfer of the six crores of silver to the Paper Currency Reserve?—That I believe is contemplated by the Government as a seasonal thing in its new regulations.

3669. It has been suggested to this Commission that it might be a good thing to make loans from the Paper Currency Reserve on proper security to the Presidency banks with a view to making the currency elastic, and so forth; would you favour that?—I should favour it to this extent: In the first place, we ought to have regulations as to what the fiduciary proportion of the Paper Currency Reserve should be. In my days in India we were frequently, as a Finance Committee of the Chamber of Commerce, called upon to consider the question of increasing that fiduciary issue, and it was always done on the basis of one-third of the permanent circulation being assumed to be safely placed in investments. At present there is only something like one-fifth, and therefore there seems a possibility of a very large extension of the fiduciary issue. Some years ago I believe the Government of India placed it on record in a letter* that they looked forward to the time when one-half of their paper currency would be a fiduciary issue. Without going so far as that, and taking the one-third, it seems to me that that 9 or 10 crores which could now be placed upon a fiduciary basis might be instead used for easing the money market in the shape of the loans you refer to.

3670. Do you contemplate as much as nine or ten crores being possibly put out in the money market of India?—I do not think it would be, but I think it might be made available.

3671. It would be probably three times too big would it not?—I am no longer in India, and I am not prepared to give an opinion on that point at present.

3672. Am I right in thinking that you would be prepared to make loans from the Paper Currency Reserve to, say, the Presidency banks, within the fiduciary total?—Certainly, I would.

3673. But there again, as you told me in answer to a previous question, at the beginning of your evidence, you would require first-rate security?—Yes.

3674. And that would be not in addition to any maximum of the fiduciary issue, but in lieu of part?—In lieu of part, after it had been decided what the proportion of that fiduciary issue might safely be fixed at. As I have instanced to you, originally we used to base our calculation on one-third, but the Government of India has ventured as far as 50 per cent.

3675. The conditions of India might change; the people may come to use cheques, for instance, and so forth, more freely, and the issue of notes might become relatively less significant than it has more recently been?—The use of cheques in India might be advantageously extended even in the Presidency towns. It is very poor at present. I see in a Calcutta paper received by this mail a complaint from a correspondent, who says that many large firms in Calcutta still pay in currency instead of in cheques, and he is asking the editor of the paper to publish that with a view to inducing the more frequent use of cheques.

3676. To the extent to which any movement on those lines proceeded, to that extent there would be a diminution of the currency notes?—Or of the rupee circulation.

3677. Or of both?—Or of both, unless it proceeded with such expansion of business as to absorb that too.

3678. The point I wanted to get your opinion on was whether a certain measure of caution might not prudently be exercised as to limiting the fiduciary portion of the Paper Currency Reserve, seeing that it is possible that circumstances might change?—You could realise your securities in such a case, and would do so, no doubt.

3679. That is your assumption?—Well!

3680. It is an assumption, you will admit, because the circumstances of the money market might make it very difficult to realise your securities?—It depends what those securities are.

3681. And the size of the market on which you would unload those securities at the time of your need?—Undoubtedly.

3682. Which might be their need too?—It might be their need as well. I would point out that part of the fiduciary issue is at present secured in British securities in this country—gold securities. I am not venturing to submit that all the extension of the fiduciary issue should always be in rupee paper.

3683. May I take you now to the question, which is a very large question, of the State Bank. What would you say on that? Would you favour the Commission with your views about the advantages and the disadvantages of a State bank?—I have ventured to formulate my views on the basis of the memorandum which was submitted to the Fowler Committee by Mr. Alfred de Rothschild, and I have read and heard many recommendations of such a bank. I am bound to admit that if it fulfilled the intentions of its would-be promoters, and so forth, it would be a most valuable addition to the banking resources of India, subject, as I venture to point out, to restrictions which would prevent unfair competition with the exchange banks. With regard to that, I may say that Mr. Alfred de Rothschild in his original paper submitted that the bank should not conduct any exchange operations, but should confine itself, like the existing Presidency banks, exclusively to internal operations. Of course, that would meet my first objection. Next, to protect from what would be unfair competition the solvent and well-managed Indian banks. I think the Government can regard with complacency, even if it does not encourage, the extension of Indian banking pure and simple, but that it should not, by the institution of a State bank, cut away the ground from under the feet of those solvent institutions. On the other hand, there are a great number of banks being started now in India the resources of which are ridiculously small, and they constitute a danger to the public. Possibly the establishment of a State bank, working in numerous branches on the lines of the Bank of France, might to a certain extent supply a need and be a safe depository for greater savings.

3684. Do you think there is a popular demand for a State bank in India?—I do not think so. I am merely taking this somewhat highly-coloured representation of what a State bank will or would do, and I say that such an institution, if it fulfilled these purposes, would be valuable.

3685. You attach particular importance, I think, to a bank of that nature, or otherwise, with branches which would co-operate with the ryot in giving him advances at less ruinous rates than he has to pay at present; but you look forward to something else, and I think you attach importance to something in the nature of co-operative banking?—I do not think I have mentioned that at all in my précis. What I have said is that a State bank would, by opening branches all over the country, provide that absolute security for the native depositor and trader, which has not in the past been peculiarly conspicuous as a feature of Indian banking. I am not thoroughly acquainted with the co-operative credit movement in India, but from what I have read of it, it seems to me that it is meeting the wants of the ryot better possibly than could be done in any

* See in this connection paragraph 5 of Enclosure I to letter from Government of India No. 295 dated 18th August 1904, Appendix VIII., page 264.

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other way; but I have not connected that in any way with the State bank.

3686. You do not connect it in that way?—No.

3687. It is an object you have in view, but you have not connected it with the other question?—I have not connected it.

3688. Do you suppose that if there were a big State bank, able to extend its operations by creating branches in places where there are no banks at the present time, it would take long before those new branches would pay?—Predictions in India are more dangerous than in any other country. The only evidence I have which is of any use is possibly that of the experience of the Bank of France, if I might just give that. In 1878—I have taken this from a paper read before the Institute of Bankers some years ago—there were 41 branches of the Bank of France carried on at a loss of 32,000*l.*, while 45 branches were carried on at a profit of 99,000*l.* Twenty years later, in 1898, there were only two branches working at a loss, the amount of which came to only 3,000*l.* a year, while the productive branches yielded a profit of 413,000*l.* That is the only evidence I can submit.

3689. Coming now to the general question of a State bank, it would have to be a very big institution, would it not?—Yes.

3690. What sort of capital have you in mind that it would require, treating it as a State bank for the whole of India?—I have not ventured to think of any capital myself, and the capital which has been suggested by others seems to me one which, on present lines, would never earn its dividend. When you come to look at the proposed bank as a paying proposition, I find many grave difficulties in the way. The project, as originally submitted to the Fowler Committee, presumed a capital of 14 millions, and to pay a 5 per cent. dividend would require a net earning of 700,000*l.* The three Presidency banks have together in capital and reserve about 7½ crores, or five millions sterling, and they pay dividends totalling annually about 340,000*l.* It is difficult to see how this could be doubled short of a heavy Government subsidy in the shape of the profits of the Paper Currency Department. Would a heavy subsidy be just? Assuming that the capital of the State bank be limited to 10 million pounds—that suggestion has been put before me from several quarters—requiring only 500,000*l.* net profit to pay 5 per cent., the absorption of the existing banks would, likewise, absorb nearly the whole of this capital. Shareholders in the existing banks would presumably have the option of exchanging their holdings into shares of the State bank or of being bought out. The market value of those holdings is now about 8½ millions sterling. With the usual “inducement” to amicable arrangement, probably nine million pounds would be required to bring about the amalgamation. The actual addition to working capital would be a solitary million sterling. I therefore wind up by saying that, theoretically, the suggestion of a State bank is an inviting one: practically, it is not yet apparent that it would be a paying proposition.

3691. That is your view?—That is my view.

3692. Would you say something further as to the utility, were such a bank established, of its looking after the sale of Council bills?—I have not ventured to suggest any alteration in the sale of Council bills.

3693. Do you conceive that any particular benefit would ensue?—I do not. I think people would be terribly excited if Council bills were handed over. The jealousy of the other banks would be rampant.

3694. Take another aspect of the probable activities of a State bank. It is quite conceivable that it might be entrusted with the management of the paper currency; what would be your view as to the utility of that?—I think a paper currency is probably better managed by a bank than by a Government.

3695. In time or at once? Could the bank take it over and do the work of the Currency Department?—The bank would take it over in that case.

3696. Could it do it quite as well at once, do you think?—That would depend largely on the staff, I should think.

3697. The paper currency is a profitable concern to the Government?—Yes.

3698. And it would be, therefore, a profitable business to the State bank?—If it is going to be handed over it would be taking a large profit which the taxpayer would have to make up. That is my objection to the transfer.

3699. Is there any further observation you would like to make?—In regard to the use of the Gold Standard Reserve I am suggesting something which probably will be regarded as heretical, but I will be courageous enough to make it. I say that with a properly-constituted Gold Standard Reserve, held in this country, there should be no need for holding any portion of the metallic reserve of the Paper Currency Department here also. The proper place for this reserve would appear to be India, since it exists to insure the convertibility of the notes, not the maintenance of the exchange value of the rupee. As regards the Gold Standard Reserve, hitherto it has been the practice, when exchange threatened to fall below specie point, to offer fixed amounts of sterling drafts on London upon a given day each week. With a properly constituted reserve in London, it should be possible to sell telegraphic transfers upon any day of the week up to a reasonable limit. Assume a grave financial crisis in London, with the exchange banks and merchants anxious to strengthen the resources of their head offices in England. Actual gold could be released in London, to the advantage of all concerned. I am now assuming that we have the reserve I suggested of 30 millions, of which half would be in liquid gold. It is certain that gold released in a London crisis would be to the advantage of London, and it certainly would be to the advantage of India. It would give her a profitable use for her money at a time when she might be willing to lend, and she could not lend it to a better market. It would be of service to the exchange banks and to the merchants anxious to strengthen their London offices if they could have these remittances by means which would help to terminate the crisis. The reason I have for suggesting it is that I was in India through the Baring crisis, and at that time—I take it on the authority of the Bank of Bengal—the aggregate balances of the Presidency banks were about 13 crores of rupees, and they were not able to lend much at 3 per cent. According to a statement of Mr. Lindsay, published in the “Economist” on 25th July 1891, pp. 960–1, they would have been glad to lend the three millions, or whatever was required, to London at 2 per cent. That is a statement made in print by Mr. Lindsay, who was the Deputy-Treasurer of the Bank of Bengal at the time. Had that been possible, there would have been no need for us to go cap in hand to France for three millions of gold. At that time—I was employed in the firm at the time, and I know the fact—a large mercantile firm were desirous of remitting some few thousands of pounds to strengthen their London house—they thought it would be better to strengthen their reserves at such a critical time, though they were in no danger. We were unable to buy telegraphic transfers from any of the English banks, and only through the Comptoir National could we purchase them. The English banks declined to weaken their head offices at that time. Such was the report brought back to us by the brokers.

3700. (Lord Faber.) Did I understand you to say that you would let out the Government balances in India at something below bank rate?—I said that unless you made it profitable to the banks they would not borrow.

3701. Would it not be better, do you think, to lend out such money as that at market rates? Have you a market rate in India as we have in England, apart from the bank rate?—The banks advance there at 1 per cent. and 2 per cent. frequently over the bank rate.

3702. And that is the market rate?—Yes. They charge 1 per cent. or 2 per cent. to the mercantile houses, the percentage depending largely on the credit of the mercantile houses. That is for overdrafts in course of shipment and so forth in the export trade.

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For long periods I believe special terms, and quite different terms, are made.

3703. You might, I suppose, allow balances to be taken up there either at market rate or by tender?—That would be for tender by the banks, I understand?

3704. Yes?—I dare say.

3705. What I have got in my mind is that I think you might very easily make a grievance if you lent to any particular banks at something below what I should call the market rate?—Quite possibly.

3706. It would give those banks an advantage over others?—I am quite with you.

3707. I think if it could be done by tender it might perhaps do away with those grievances?—It would, necessarily.

3708. (Mr. Gillan.) You said, in answer to Sir Robert Chalmers, that you think the balances of the Government of India recently have been unnecessarily large?—Yes.

3709. And the cause, you thought, was that the budgets had been too pessimistic?—Yes.

3710. I suppose you recognise that under present conditions there are great difficulties in the way of budgeting in India?—There always are.

3711. The rule which the Government of India have to follow, *faute de mieux*, is to budget for the normal?—Yes.

3712. An estimate based on the normal is an estimate that is bound to be exceeded if you get a good year?—I would venture to interpolate, if I may, that while the Government should budget for the normal, reading the various speeches of Sir Guy Fleetwood Wilson, I think he has always budgeted for below the normal. All his speeches that I have read have been pessimistic ones.

3713. That is to say, they have not fixed the normal at a proper level?—As the results prove, apparently.

3714. Suppose they had budgeted for a fuller normal, and the actuals in consequence had been closer to the budget estimates, or, rather, we will say, that you foresaw that you were going to have a bigger surplus than was put down in the budget, in that event what would you have done?—In the first place I would not have imposed taxation, but the Indian Government has done so.

3715. That was in 1910. If you had foreseen a bigger surplus would you have taken off taxation?—If I had foreseen a bigger surplus for one year, no. I have now got in my mind the opium surplus. If I had foreseen a surplus of one year, no; if I had foreseen what appeared to be a permanent surplus, yes.

3716. Suppose the surplus you foresaw was going to last, as far as you could judge, for only two or three years?—He would be a very wise Finance Minister who could look more than two or three years ahead.

3717. I know; but supposing your forecast was for two or three years only?—I should have accepted it.

3718. You mean you would have taken off taxation?—Yes.

3719. Would that have been because you consider that taxation at present is, as a matter of fact, excessive?—I would not like to say that taxation is excessive, but I think there are a number of cases where it is inadvisable. In one particular alone I think it is very inadvisable. Might I refer to the income-tax? There is an income-tax which, applied to the European firms, is a just tax. I never complained of it, and I pay it still in both countries. As applied to the native it is a mistake. The great aim of the Government should be to get the native of India to invest his money in joint stock enterprises and in securities; but no sooner has he done so than the Government sweeps down upon him for a tax, and if there is one thing hated by the Indian more than another it is a Government tax. It is not an encouragement to the bringing out of hoards to tax them at once when they appear and you can lay hold of them. That is my point.

3720. Would you make use of some of those large surpluses that you foresaw to remedy defects in the

income-tax?—I think it is an inadvisable tax, politically considered, as applied to the Indian.

3721. With regard to Council bills, I think you said that the effect of Council bills was to restore to the circulation in India the currency abstracted from it?—The currency collected from the circulation is restored to the circulation by sales in the form of Council bills.

3722. That is not affected particularly or specially by Council bills, is it? If the Secretary of State did not draw Council bills you would have the funds going into India in the shape of sovereigns and there being exchanged for rupees, restoring in that way the circulation which had been withdrawn?—If rupees are wanted you can only get them either through the Secretary of State or through the importation of gold.

3723. If you stopped the sale of Council bills you would not necessarily stop the restoration of this currency which you have in mind?—If you stop the sale of Council bills the Government will accumulate the taxation in its treasuries. It could not remit the proceeds of that taxation to pay its debt in England, because those proceeds are in silver. It will have to exchange them in some way or other, and with someone or other, for gold with which to pay its debts in England.

3724. But the rupees which were wanted for circulation would equally be withdrawn from the currency by the presentation of sovereigns?—They could be withdrawn from the Treasury by the presentation of the sovereigns, and those sovereigns would have to be remitted at the cost of the Government to England to pay debts.

3725. That is a further consequence, no doubt. With regard to the loans from Government balances in India, we have had some witnesses who said they saw no objection to such loans being made, but at the same time they were not very enthusiastic on the subject, and they did not consider that there was any very great necessity for them. What is your view on that?—The necessity would be shown by the tenders which Lord Faber has referred to.

3726. Do you think that ordinarily in the course of the busy season in India it would be a good thing for the Indian money market to be helped by loans from Government?—Application has been made in the past by the Presidency banks for loans at those seasons, and they have been refused.

3727. Do you think in a general way it is very important for the Government to help the money market as far as it can out of its balances?—If the Government by its action has abstracted from the circulation currency which is needed, it is the Government's business to restore it to the circulation as soon as possible.

3728. On the matter of the form of the currency for India, I think you said that on the whole you would prefer an extension of the note circulation to an extension of the gold circulation?—Yes, I think that is most desirable.

3729. There is one point I wish to put in that connection. At present there is the right to cash the notes at only a small number of places in India, that is to say, at the currency offices; if the Government were inclined to increase the number of those centres this is the kind of difficulty that presents itself to my mind, and I would like you to consider it. Suppose you take a place like Ahmedabad, in the Bombay Presidency, where the big crop is cotton. The demand for cash at Ahmedabad will come in February or March or April. It would then subside, and then there would be a back current of rupees in what, for Ahmedabad, would be the slack season, say from May, or after that. About July you get a great demand for rupees in quite a different part of the country, because then the jute comes on. Therefore, Government will be getting back its rupees, we will say, at Ahmedabad, and simultaneously it will have to plant a very large number of crores of rupees at the other end of the country, in Eastern Bengal?—Do you mean to say in exchange for notes?

3730. Yes?—That is one of the difficulties which the Government faced when it extended the conditions of the universal circulation of notes; but then the profits on the Paper Currency Department are large,

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and, if it is a mere question of transporting currency, the Government is well able to do it out of their profits.

3731. Do you think it the work of the Government to undertake this responsibility to find rupees all over the country in order to extend its note circulation?—I think that if the note circulation were handed over to a bank, the bank would make profits out of that circulation, and would take risks which possibly the Government at present is somewhat loath to do.

3732. Then from your point of view a bank could do this particular kind of business better than the Government could?—I do not say it could, because latterly the Government have extended it enormously, but I say it would be its policy to do so, because it would be profitable.

3733. When Sir Robert Chalmers was asking you about the Gold Standard Reserve, and you suggested that certain regulations should be drawn up for it, I think you said something to this effect—that the owners of rupees are entitled to get them changed into gold?—A member of the public who has paid you a sovereign for 15 rupees to place in India is entitled to have his money back if he wishes it.

3734. Might I ask you to tell me once more what was the regulation that you proposed on that point?—That the Government should always be prepared to issue sterling drafts, or telegraphic transfers, at this rate of 1s. 3½d., or 1s. 3¼d., as the case may be, on demand.

3735. I understand this is to be a regulation of some sort?—Yes, and it is practically so now, because the Government does it, but it is not stereotyped in a statutory form.

3736. That is what I want to get at. What would be the difference? Would it impose on the Government a legal liability?—If it were put into statutory form it would. The evasion of such a liability means disaster to India; it means the utter collapse of the currency system.

3737. Do you not think that is going rather far? Is this absolute liability to find gold for silver on any or all occasions a feature of the currency of any country except England?—I do not say that India should do that; I say it should only do it for remitters, exactly as Holland does; I believe Holland does that to-day—she finds gold for export but not for internal use.

3738. That is a point I was not quite clear about. You do not mean that anybody who takes 15 rupees to a treasury or to a mint in India should get a sovereign for it?—No. The sovereign has been brought into the country and changed into rupees. When the man wants his sovereign back again it is to go out of the country. That is the way I look upon it.

3739. Then this regulation would be limited to remittances?—Undoubtedly. Might I quote you in two lines the point as dealt with by the Fowler Committee? The Fowler Committee said in effect that the Government should not be compelled by law to furnish gold for internal purposes. That you will find in paragraph 59 of the Fowler Committee's Report.

3740. I will now go on to the amount of the Gold Standard Reserve, with regard to which you say that you would like to define it with some reference to the amount of rupees in circulation. I think that is your general idea?—That is a suggestion.

3741. You said, I think, that it would be well to have some serious step taken to ascertain the amount of the rupee circulation?—Yes.

3742. I suppose you know of the calculations that were made on that subject by Mr. Harrison?—Yes, and by Mr. Atkinson too, whom I knew personally.

3743. What were, do you think, the defects in those calculations? Did they not, as a matter of fact, make use of all the information that is probably available on a subject of this kind?—I do not know whether it would be quite right to quote one of the members of the Commission on that point, but Mr. Keynes thinks exactly with me. In his very able book which I have had the pleasure of reading, he says doubts were thrown upon the collection of the various statistics which were applied for the purpose of ascertaining this figure. The Government had certain rupees

counted at certain centres, and I believe Mr. Keynes throws doubt, as many others have done, on the reliability of these countings.

3744. Do you think the data were wrong?—I have no knowledge; I merely say that that is the fact. I have had it said to me by statisticians in India that anyone who knows anything about Indian statistics knows that they are not worth a penny.

3745. What I wanted to get at from you was whether you thought the calculation of the rupees in circulation is not a problem which is indefinite in its nature?—Which is necessarily indefinite?

3746. Yes?—It is a very difficult problem. I believe that the statistics which give the gold circulation in England are not accepted as being absolutely definite, but they are approximate; and I think you may get a similar approximate estimate for India.

3747. Why I am asking you more particularly about this is that I think one reason why you would like to fix the reserve in some sort of proportion to circulation is that you think the circulation is a more definite figure than the amount which would impinge, as Sir Robert Chalmers said, on exchange?—The amount which would impinge on exchange you can never define, I think. That would be the amount which would seek external remittance, and what that is you would never ascertain. It would depend upon the extent of the crisis, the state of trade, and various other factors.

3748. Do you not think that the experience we have had of the past crisis of, say, 1907–8, is perhaps as good an indication of the amount that would be required by the public as any inference based on a calculation of the rupees in circulation?—Quite as good.

3749. Then with regard to the proportion of the circulation that should be fixed as the amount of the Gold Standard Reserve, you referred to the practice of the English joint stock banks as a sort of example; do you think that that is a direct analogy?—It is not a close analogy.

3750. Do you think it is an analogy which might be taken?—It is an analogy.

3751. Is it not the case, for instance, that the amount of the reserve which banks consider they require varies very largely according to the kind of banking business done?—I am taking the average of the whole of the joint stock banks in England and Wales; that is what I am basing my percentage on. They vary very considerably, undoubtedly, but I am simply taking the average.

3752. If you take another class of banks, they would give you a different percentage, would they not?—If you separated the banks you would get a different average, but I am taking the average of the whole.

3753. (Lord Faber.) I think in that instance of yours, you said the banks kept cash and liquid assets?—Cash in hand or at the Bank of England to the extent of about half of this 23 per cent.

3754. That is liquid assets, it is not gold; you know that, of course?—I have defined the whole thing. What I said was that the English joint stock banks keep about 23 per cent. of their liabilities in cash, at the Bank of England, at call, and at short notice.

3755. Not so very much of that is what you and I understand by cash, that is, gold?—A like proportion gives 46 crores, or say, about 30,000,000l. as the size of the reserve against rupee liability. Of this 23 per cent. the English banks hold about half in actual cash or at the Bank of England, which is the same thing.

3756. But it is not in gold. All I want you to understand is that out of that 23 per cent. not much is gold?—What is put into the Bank of England we look upon as gold. That is my point.

3757. They will not regard it as such. Why I say this is because we have a great discussion going on just at this moment, and the Bank of England have taken the standpoint that a balance at the Bank of England is not the same as gold?—It is perfectly certain that it is not, because the total balances at the Bank of England would shrink away the whole of the gold immediately—I admit that.

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3758. They go on and explain it in this way, that the joint stock banks are so very big in England now that under certain circumstances it might not be possible even for the Bank of England to pay all their balances off in gold?—I can quite see that they could not.

3759. Because the outside banks are so big and strong?—Yes. Again, if the whole of the banknotes were presented to the Bank of England, the Bank of England would be insolvent. We know that, and we should suspend the Charter Act.

3760. Still there is a great deal of gold against the notes?—But still they are short. You have a note issue of 55 millions, and you have not that amount in gold at the Bank of England to meet it.

3761. (Mr. Keynes.) Your figure of the half of 23 per cent. is not an ascertained figure, but it is an estimate which is open to doubt, I think?—It is ascertained. I am taking some of the leading banks of the country.

3762. And you are applying the half of the 23 per cent. to other banks for which the figure is not known?—Precisely, because they have confused the two halves together in their balance sheets.

3763. So it is a case of not being an ascertained figure?—It is ascertained on the basis of four banks, the London County and Westminster, the Capital and Counties, the Union of London, and the London and Provincial.

3764. It is based on the assumption that all the other banks keep as good an average as those banks?—I should not like to say that; I am hoping that it is so.

3765. It is based on that assumption?—I am assuming that, in these figures.

3766. (Lord Faber.) The only point I am trying to make is that liquid assets at the Bank of England is not at all the same as gold?—It is not, I quite agree. When I say it is the same thing, I mean that in England it is looked upon as the same thing.

3767. (Mr. Gillan.) I would like you to consider the Paper Currency Reserve and the Gold Standard Reserve together in regard to the location of any gold that is contained in them. Do you consider, taking the general question, that as a whole gold held in India is more advantageous for the support of exchange than gold held here?—I should say gold held in England, most distinctly. You could then undoubtedly limit the demand to gold asked for by remitters, and I think it is the only safety of the present scheme that it should be limited to remitters.

3768. Gold that is drawn out from currency in a time of crisis, as it was drawn out in 1908, you consider does not support exchange?—It does not; it disappears.

3769. I want to put this to you, because this is a point which is put by those who hold the opposite view. If you take 15 rupees from a person in India and give him a sovereign, you have at any rate a contraction of the silver currency?—Yes, you have, it is true.

3770. Is not that the effect, as far as that goes?—You do not know whether the sovereign may not go into circulation, in which case it has not contracted the currency.

3771. You are contracting what I may call the dangerous part of the currency, the currency as to which you have a liability, because the sovereign is carrying its value with it?—You are creating no monetary stringency, but if money is wanted for export it will create monetary stringency; it will adjust the balance of trade in that way.

3772. Would you say that if the Government of India were again faced with a crisis, as it was in 1908, it should refuse to give up the gold it has in India for internal circulation?—It should certainly reserve its right, as it has reserved its right, and I think it should certainly be urged upon it, to issue that gold only for export. If it is in such a very strong position that it can safely give up the gold for internal circulation, very well, but otherwise it should reserve that right, and exercise it if needed, undoubtedly.

3773. As regards loans from currency about which you were asked, you said loans of that kind ought to be made on first-rate security, I think?—Yes.

3774. What had you in your mind in speaking of first-rate securities?—I had in mind Government paper in the first place. It is so difficult in India to find readily saleable securities of other kinds; you have not the same market in India that you have here.

3775. You are aware that in other countries the expansion of the note circulation is allowed against bills of exchange, are you not?—Yes, that is so.

3776. What do you say to that, in connection with India?—I never was sufficiently acquainted with the hundi market to be able to express any opinion. It is the only market I was not familiar with.

3777. Lastly, as regards a State bank or a central bank; I do not know that this question has been put before the Commission yet, but one has heard a great deal in connection with these proposals of the difficulty that would arise as a consequence of the rivalry, or the distinction in interests, between the different parts of India—between, for instance, Bombay and Calcutta; do you think that is a serious difficulty in the way of a State bank?—It should not be a serious difficulty, but it always has been a difficulty. I think it was the rock upon which the scheme foundered in the previous case—in 1900 I think an attempt was made to found a central bank.

3778. Do you think it is a difficulty which can be got over?—I think myself that it would be a great advantage if the three Presidency banks were amalgamated, without any attempt to raise a large additional capital as is suggested, and upon which it would be difficult to pay dividends. I think the union of the three banks would be very preferable.

3779. How would you provide for the representation of those different interests, if you say that is a difficulty on which the proposals foundered on a previous occasion; how would you avoid it, or get over it?—I think it would require a diplomat rather than a merchant to deal with that question.

3780. (Sir James Begbie.) In the matter of Council bills you have stated objections to the proposal that the bills should be sold only at 1s. 4d., and you have made the remark that the Secretary of State would always be the last to be served if he held to the 1s. 4d.?—If he held for any fixed price, yes. If he holds for any fixed price it practically amounts to this, that there is a permanent and standing offer in the market at such a price, and therefore every wise man will endeavour to transact his business at a rate which is a little, ever so little, better than that.

3781. Is not the Secretary of State the last to be served when exchange conditions are not favourable, whether he holds out for a fixed rate or not?—When exchange conditions are not favourable, and there is no demand for Council bills. If there is no demand for Council bills, there is very little demand for remittance to India possible.

3782. Therefore he is left?—He will be left as soon as he gets down to the minimum 1s. 3½d. He need not be left, because he can continue to sell at any price, but he does it at his peril, because it will come back in the shape of sterling drafts from India at a profit.

3783. You are not in favour of the sale of drafts against the Indian branch of the Gold Standard Reserve, nor against new coinage except at specie point, I understand?—The specie point is very difficult to fix, I admit, and the specie point in India is different from the specie point in Egypt and Australia. My only reason is that the addition of new currency to the existing currency should be made in the last resort, and you can only arrive at the last resort by having a maximum price and the market paying that price.

3784. In the case of sales of bills against, say, silver coinage, would you suggest that a change should be made in the way these bills are sold? Is there any object in putting them up to auction, for example?—If you put them up to auction you do not fix your specie point; you auction them the same as Council bills.

3785. That is the very object in offering them by tender, is it not?—They would fetch no more than old

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rupees such as are already in the Treasury. It is indifferent to a man who is buying rupees in India whether he gets new rupees freshly coined or not.

3786. I am putting the case that the Government are selling bills against a silver coinage?—In other words, it supplies its needs with Council bills, and has no more to sell; is that what you mean?

3787. I am supposing it is only selling against the silver coinage?—A man would not do that so long as he has other balances to draw on, therefore we will assume that the Secretary of State has exhausted all the other available resources, and then he should hold on for the specie point; in other words, he should then fall back upon the law, and the law is that if you tender sovereigns to the mint in Calcutta and Bombay, you receive 15 rupees for each sovereign, or that if you tender gold to the Paper Currency Department you receive rupee notes at the same rate. If he is asked to act under that law in this country, then he should not sell those 15 rupees for 19s. 9d., but he should sell them for the full sovereign plus the carriage. It is complicated, I know, by the gold which goes from Egypt and from Australia. It is a very complicated and a very difficult point, but that is just my general idea of it.

3788. Is there any object in offering these bills for tender? Would it not be enough if remitters simply came and said they wanted so much, because the rate is pretty well known, and you can always tell what the rate is? Practically it would be very similar to what is done in ear-marking gold, would it not, at 1s. 4½d.? —It is practically the same thing, only in the one case you are taking rupees which exist in the Paper Currency Department, and in the other case you are taking new rupees which are to be coined specially. My only reason for making the difference is that the Government should only in the last resort issue 15 new rupees for every sovereign, and they would only know when the last resort has been arrived at by the willingness of people to pay the top price.

3789. We have had it in evidence that the India Office, in selling bills, have not paid any attention to the specie point?—That has been alleged.

3790. They admit that they have sold bills, and will go on selling bills so long as they keep exchange between the two specie points; do you agree with that?—I think they certainly should meet the market, and of course make the best rate they can for the India Office with regard to any rupees which are part of their balances, either against Council bills or against excess collections such as we have had of late. Certainly they should meet the market.

3791. Or against a Gold Standard Reserve in India? —I think in my précis I have included the Gold Standard Reserve as a thing which should be held at the gold point, but on carefully thinking it out since submitting my précis I would like to withdraw that, because I see that in issuing rupees from the Gold Standard Reserve in India the Government is getting its pound's worth of gold, and therefore it is not holding only one-third as it would do in the case of a further issue of rupees.

3792. It is a fresh addition to the currency, is it not?—It is in a way. It was originally a fresh addition to the currency which has returned as against sterling drafts. I am now speaking not of the original six crores, but I am speaking of those transactions that took place in 1907-8. So far as regards those original six crores, certainly my reason would apply if they were new rupees. I am now speaking of the currency reserve as a working concern which absorbs and releases them. As regards any old rupees which have been absorbed, the Government, I think, should issue them as freely as it could from the Treasuries, but with regard to new coinage, not.

3793. You would not apply the specie point, then, to those old rupees?—Not to the old rupees which had been absorbed in the 8½ millions which had been remitted.

3794. Regarding the establishment of a State bank, would you say there would be unfair competition with the exchange banks if the State bank was empowered to remit on account of Government the home charges

amounting approximately to about 24 crores, say? I ask the question because you put down in your précis the fact that the total foreign trade of India last year was about 485 crores. If the State bank remitted the Government's home remittances, which amount to, say, 24 crores, would you call that unfair competition? —At present the Council bills are a very big factor in the operation of exchange banks. They are most useful, we know, and in all probability if they were handed over to a State bank it would be a certain inconvenience and interference with the established banking practice of the exchange banks. It would give rise to objections and jealousies, I think. Moreover, if the Fowler Committee were right in specifically limiting the operations of the State bank to internal purposes only, it would be exceeding their recommendation to give it a right of entry to the London market.

3795. You consider the size of the Gold Standard Reserve is at present ample, taking into account the very large amount of gold in the Paper Currency Reserve?—Yes.

3796. But you do not consider the Gold Standard Reserve by itself is ample to secure stability of exchange?—No, because the Gold Standard Reserve contains no less than four millions which are in silver, so it is only about 18 millions strong, and I do not consider 18 millions of gold is a sufficient Gold Standard Reserve at present. But coupled with the enormous holdings in the Paper Currency Reserve, it is ample and more than ample.

3797. You stated that with a properly constituted Gold Standard Reserve held here, there should be no need for holding here also any portion of the metallic reserves of the Paper Currency Department?—You would be holding two funds for one and the same purpose in that case.

3798. Do you think that under any circumstances a portion of the Paper Currency Reserve should be held in London?—In any circumstances? It has been urged frequently that it is serviceable in expediting the purchase of silver for currency purposes. That could apply to only a small proportion of the gold which might be held. At present it is not very large, but it might be, and has been larger, I think.

3799. It has always been held that it might be useful in the case of a crisis?—It would be equally useful in India, seeing that the Government reserves are ultimately open only for issue to remitters or exporters.

3800. Do you think there is some danger of gold held here causing some discredit to the note issue in India?—Causing discredit on the ground that it is not sufficiently secured?

3801. On the ground that the money intended to redeem the notes is not available on the spot?—Yes. One of my reasons is that the Paper Currency Reserve is primarily intended to secure the convertibility of the note, and therefore it should be held in India; but as the note is payable at the option of the Government in silver, it is not necessary that gold should actually be there against the notes. They are not gold notes so far.

3802. No, but still you have power to issue gold?—If the Government wishes and considers it safe to do so, yes, but in a crisis they might not. They could issue silver only.

3803. I do not know whether you are aware of the fact, but we have had experience in Bombay of serious runs on banks. The banks have been discredited for no good reason, and there has been a run upon them. That has happened more than once. There is the fact that people do take fright sometimes and make a run on a bank, so that we might have a similar instance of discredit in the case of the note issue. It is, therefore, a question in my mind whether it is advisable to hold the gold of the Paper Currency Reserve in London?—I think not; I think it should be held in India. But you must have sufficient gold reserve here, otherwise I do not consider your present Gold Standard Reserve would be sufficient.

3804. The gold in India would still support exchange?—Yes, undoubtedly for internal purposes but it might not for exporting.

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3805. (*Chairman.*) How would you propose to secure that gold issued in India in the circumstances you are contemplating should be used only for the support of exchange?—I do not know what measures would be necessary, but I know that it is done. Holland is doing it at present. She is supplying gold freely for export, but she does not bind herself to supply it for internal purposes. I suppose it is done on certificate, possibly in the same way that opium is shipped to China on certificate.

3806. (*Sir James Begbie.*) I gather that you are not in favour of doing anything to encourage the use of gold as currency?—No, I am not in favour of the Government encouraging it. I do not think it is necessarily a function of the Government to do that, but if the people wish to have a certain currency the Government should not interfere.

3807. The people should get gold if they want it?—If they wish it; and the Government should neither specially push it on them, nor arbitrarily interfere with their right to get it.

3808. Have you heard that sovereigns are now freely circulating as currency in certain districts?—Certainly; that is so.

3809. Does that fact not prove to you that gold coins are not unsuitable for circulation purposes in India?—I do not think they are unsuitable. Historically, I believe it is a fact that there was a gold circulation.

3810. Do you think it is possible that in other districts where hitherto rupees have been the only or the principal medium of exchange, a change to the use of gold may develop?—I think it is possible.

3811. Let us suppose a position similar to that which we had in 1908 after the crisis of 1907, when the gold reserves fell to a low point and the reserves of rupees were high. I suppose you would agree that such a situation might again be experienced? At such a time the natural desire of the Government would be to see the flow of currency reversed, surplus reserves of rupees re-issued to the public, and the gold reserves restored?—Yes, that would be so.

3812. Suppose the position has changed in this respect, that a great demand for gold as currency has developed; if the currency tide were reversed, the public demand might be for gold coins?—It might.

3813. How would you deal with a situation like that with your reserves full of rupees?—Do you mean would the Government tender notes? The public could import sovereigns, and they are doing so at present. It would not affect the Government if they imported sovereigns in exchange for their produce.

3814. But how would the Government get the gold reserves restored if the gold went into circulation?—If the Government never issued the rupees it would never want the gold backing to support them, because they would be locked up in the Treasury.

3815. Then the rupees would be left in the hands of the Government?—*Pro tanto* the Government liability would be lessened by the amount of gold that is given out for rupees.

3816. The gold reserve would cease to exist then?—If India became a gold currency country the position might not be unlike that of the United States, where they have an enormous amount of dollars which cannot get into circulation which are in the cellars of the Treasury. It rests entirely on the habits of the people. It may come, but if it does it will probably come gradually.

3817. You stated as an objection to the 10-rupee coin that it might check the circulation of the 10-rupee note?—I think so.

3818. Do sovereigns check the circulation of notes?—There is no comparison there.

3819. Not as regards the amount?—The small 10-rupee note is less than a sovereign, and the larger notes which are used for trade purposes do not compete with the sovereign in identical amount. If you had a coin which actually competed with an existing note it might possibly be—*I* do not know, and I should not like to make predictions about things Indian—that it would affect the circulation of the note to which it was of equal value.

3820. But so far the note circulation is not affected?—So far it is not. I would rather attribute the increased circulation of the note in India to the abolition of the circles—that is, to the universality of the note, than to the mere fact that it is due to other causes.

3821. You also fear that the 10-rupee piece might become popular as a new ornament and disappear from circulation?—It possibly would. That is the opinion of some of the most persistent attackers of the present system, "The Times of India" for instance.

3822. Even if that proved to be the case, would it not be an advantage in so far as it reduced the necessity for fresh silver coinage?—Not if it disappeared—only if it passed into circulation.

3823. Instead of issuing fresh silver coins, if the 10-rupee coin went into the hands of the public?—And became an ornament, it would not affect the circulation.

3824. But it would save the Government the necessity of coining?—How would it?

3825. If, instead of coining fresh rupees, they issued 10-rupee pieces?—No, because they would have to issue 10 rupees for trade purposes, but if they are issuing 10-rupee coins which become ornaments on a woman's neck—

3826. Does it make any difference whether the coin goes into circulation or into hoards?—I think so on exchange. The rupee will come back possibly for export, the ornament is less likely to do so except in the case of famine, when the ornaments do come back we know. I think there is a great difference between the two cases, if I may respectfully suggest that.

3827. (*Sir Shapurji Broacha.*) You say the Government must not allow great accumulations of money, but that they should deal with the surpluses of India as surpluses are dealt with in England, and let them go to a sinking fund for the reduction of debt. Say, for instance, that they have a surplus of 7 millions this year and apply it to liquidate debt, although they may have shortly to borrow 7 millions, and are wanting 15 millions or 12 millions for public works: would it not be a great advantage rather than reducing taxation to go on building with the surpluses public works which are so fruitful?—In the first place, you say, Would it be advisable to pay back those debts if you are going to raise fresh debt shortly? I think I have already answered that. In reply to Sir Robert Chalmers I said if it is a near liability no; but if it is a liability of two or three years hence, then undoubtedly that should not interfere with the proper use of the sinking fund.

3828. India wants 12½ millions or 15 millions for public works every year, so it would make very little difference on the whole. These large surpluses are accumulated owing to certain causes. Take the opium, for instance, the Government could not have reduced that?—No.

3829. Then there was about 7 millions of revenue which the Government could not have anticipated, so that out of a surplus of 22 millions 13 millions belong to two items which the Government never anticipated?—But the fact is that according to their own apology or excuse they hold up these large balances while at the same time borrowing or renewing debt.

3830. That would be a very complicated transaction from a merchant's point of view and a banker's point of view?—Very. I think they are wrong, and I venture to submit to the Committee that it is an apologetic excuse, but not a sufficient defence.

3831. Should they use their surplus to reduce the debt, or to build railways and other public works?—They did neither one nor the other, and I have submitted a case where Sir James Westland did both.

3832. What did he do?—He had a surplus of 10 or 11 crores in 1894-5 owing to his holding up of Council bills in 1893. The result was that he was landed with 10½ crores of rupees stored in his treasuries which he solemnly undertook not to spend on railways or other purposes, because it would interfere with his currency scheme. He pledged himself to that in his budget of 1894-5; I have his exact words. Within 18

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months he had spent those 10½ crores (which was a distinct breach of faith that we ventured to accuse him of at the time) on railways partly and partly in avoiding rupee loans.

3833. That is a long time ago?—Do you wish me to say whether we should use that surplus for railway or other public works? If you mean to say that a surplus which shows itself at the end of a financial year is to be employed in public works, then I say that that is a most vicious and demoralising way of budgeting. All public works, railways, &c., should be duly set forth in the budget, and should be criticised in the Legislative Council.

3834. How would you budget the next year's railway revenue—on the basis of this year's, I suppose?—But you always estimate before you say what you can allow for railways year by year.

3835. Take two consecutive years; if the railways have earned a certain amount in the first year, I suppose you would budget for the same amount the next year in order to be safe, but at the same time you are not sure what the monsoon is likely to be?—I am not thinking of the earnings, I am thinking of the expenditure. Assume that we have budgeted for an expenditure of 12 millions on railways for this next year, and that at the end of the year the Government finds itself in possession of a surplus of 5 millions, are you suggesting that they should spend that on further railways or public works? It has not been budgeted for, it has not been agreed to, it has not been criticised or debated in the Legislative Council, and I think it is wrong.

3836. (Chairman.) May I put the case to you as it appears to me, which is not exactly as you see it? Supposing the Government has a railway programme requiring 12 millions and they budget for a surplus over their current expenditure of, we will say, 5 millions, out of which they propose to pay a part of that railway expenditure, and they propose to borrow the other 7 millions required to carry out the whole of it. As the year goes on the revenue comes in so well that they find they have a surplus not of 5 millions but of 12 millions, and they then spend the extra 7 millions of surplus in that railway construction. Why should they pay off debt with it on the one hand, and borrow 7 millions in the London market for railway construction with the other?—Was that not dealt with in my previous remark, that if the borrowing is near, certainly they should avoid the borrowing? Then it is the same thing as paying off debt; but if it is a question of wanting to borrow two years hence, then I say that should not be allowed to interfere with your paying off floating or other debt.

3837. Do you suggest in the case of the balances of recent years the Government in deciding what to do with them consciously postponed their use for two or more years?—I do not know the mind of the Government, but I know what happened. I know that the balances steadily accumulated year after year for two or three years, and that it was not owing to extraordinary circumstances that these additions were made, because the existing balances were due to known circumstances.

3838. Was not the unexpected balance of the first year worked off in the main pretty quickly, the high figure at the end of the second year being the result of another surplus, not of the retention of the first surplus?—The total net surpluses were about 10 to 11 millions according to the statement, but the balances were higher than that; the balances were 18 millions to 20 millions, I believe, at one time.

3839. (Mr. Gillan.) I do not know whether you think that the railway expenditure is suddenly made without being budgeted for. In the case you put that is not what happens. The extra surplus of one year is carried forward as a balance to start the next year, and it is on the basis of that balance that the railway programme for the following year is built up?—That I would agree to; but that surplus was carried forward in the shape of a cash balance which grew; in other words, whatever way you look at it these balances were not expended.

3840. What has happened—have they disappeared?—This year they have disappeared—after four years as a matter of fact.

3841. They have finally been reduced?—Finally.

3842. And in the meantime you have maintained a railway programme of 9 or 10 millions a year with practically no borrowing?—The question, of course, suggests itself to one's mind how far this rapid reduction of the balances has been due to the clamour that has been raised.

3843. (Sir Shapurji Broacha.) Do you say the gold against the currency circulation should not be kept here?—I think as the sole purpose of the currency reserve is to secure the convertibility of the note, necessarily that implies that the metallic reserve should be kept where the note is.

3844. What difference would it make when the holder of the note knows that so much in silver and so much in gold is placed there and in England? You are not afraid, are you, that all the gold will be taken away in a day and there will be no time to send the 7 millions to India?—I am not afraid, and I do not think many people are really afraid, but it has led to very great outcry.

3845. There are a great deal too many outcries which are created not by the people but by outsiders?—The result of the outcry is this Commission.

3846. What difference does it make? Is not the first line of the defence of exchange not to give sovereigns against rupees?—My own idea is that that is a mere phrase. The first line of defence for a currency system which is not based on a gold currency is undoubtedly the fund which is raised to secure the exchangeable value of the rupee. Therefore the first line of defence for such a scheme exists in the Gold Standard Reserve.

3847. Is it right to disturb it so long as you have the Currency Reserve to pay against it and maintain the exchange?—I think I have said I would not disturb it until the Gold Standard Reserve is placed at a sufficient figure.

3848. What good is there in sending that seven millions to India?—What benefit do you derive by keeping it here?

3849. At present I should keep it here. You can draw on that gold, but then you have to pay double expenses?—At present—I quite agree, and I have said so.

3850. There is no great force, then, in the argument that that gold should be in India and not here?—The objection I see to keeping it here is that if you once get a sufficient Gold Standard Reserve to secure the convertibility of the rupee it is not necessary, and it is certainly necessary, or ought to be necessary, where the note is circulated.

3851. It is kept here by law; they passed a law to that effect?—Not to keep it here, but that it may be kept here.

3852. The people of India know that law?—Yes.

3853. And the people have not been very uneager to take those notes, because the circulation is increasing?—I admit that.

3854. Do you think that the 10-rupee gold piece would check the circulation of the 10-rupee note?—I think it might.

3855. The circulation of this 10-rupee note has increased the total circulation; would it not be a waste, therefore, to have 10-rupee gold pieces and drive away 10-rupee notes?—Quite so.

3856. If for no other reason than for the loss in weight?—Quite so.

3857. I suppose you know that when Lord Goschen spent about 900,000*l.* in restoring the weight of the gold coins, about two-thirds went into the abrasion of the half-sovereign pieces, and only about one-third into the other?—I know that.

3858. The smaller the coin the more danger there is in that direction?—That is true.

3859. If the people once know the value of the note they will know that a 10-rupee note will bring them as much as 10 rupees in gold or 10 rupees in silver; that is to say, it will buy 10 rupees worth of goods on the market?—Yes.

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3860. It will do that just as well as a 10-rupee gold piece?—That is the very essence of a paper currency.

3861. So there would be no great benefit in having a 10-rupee gold piece?—None.

3862. While, of course, there would be an absolute loss in the weight of the coin?—I see no need for an alteration.

3863. I think you are not very strongly in favour of a State bank?—No, I am not.

3864. You see difficulties in the way?—I see great difficulties.

3865. You say a State bank would have one advantage when it is borrowing money from people, that it could assure them of the safety of their money?—A State bank would have a prestige if it were recognised as a State bank.

3866. Do you know that such banks do not allow interest?—They take deposits.

3867. Most of the State banks do not allow interest?—A bank like the Bank of England would not allow interest on deposits.

3868. The Bank of France does not allow interest?—The Bank of France has a special business of its own.

3869. Never mind what you call it, but they do help the small persons by borrowing their money and ensuring them the safety of their money?—I have had conversations and correspondence on this subject, and it is held that the Shroffs would be largely depositors with a State bank, which they are not with the Presidency banks. How far that would go Sir James Begbie can probably tell the Commission.

3870. I suppose the rules for lending by the State bank would be the same as the rules for lending by the Presidency banks?—I would not like to predict what the rules would be.

3871. It would lend on authorised trustee securities?—I cannot say. That is entirely a thing in the air so far.

3872. If that were not done by the State bank it would in a way weaken the strength of those securities?—The charter of the bank would have to be drawn up and agreed to. I cannot say what it would contain.

3873. Do you think that in lending small sums as the Bank of France does, it would be any benefit to investors?—The Bank of France advances down to 150 francs, I think.

3874. They will discount a bill down to 25 francs, they will even go down so low as 5 francs. Would a State bank do that? Would they advance in that way for the benefit of the interior trade or industry?—I pointed out that it would take a very well trained and a very large and very expensive staff to do it in India. I doubt whether it would be done.

3875. I agree it would be very expensive, and that it would require a very large staff, and I suppose the Government would not save much; I suppose, for instance, that all their travelling staff in the accounts department and other departments would still have to be maintained?—That I cannot say.

3876. (*Mr. Keynes.*) Do you think it possible that a State bank might attract a new class of depositors?—I think it is possible.

3877. Is it possible that the co-operative societies would themselves bank with the State bank, and that it would be a convenience to them?—I do not like to make any prophecies at all about that.

3878. If the State bank were to enter into exchange to the extent of carrying out the Secretary of State's remittances and no further, that would involve some interference with the existing interests of exchange banks, would it not?—It would involve some interference.

3879. Is this a case where vested interests ought, in your opinion, to be respected?—That is an exceedingly difficult question. I have a great respect for vested interests in any walk of life. If the Government is convinced that this would be for the benefit of the people as a whole they can override any vested interests. It is merely a question for the Government, not for me.

3880. That is a general principle; you have not any opinion as to its application in this instance?—No, I have not.

3881. (*Sir Ernest Cable.*) Sir Robert Chalmers, I think, put to you the question that perhaps the use of cheques might curtail the circulation of currency notes; from your experience in India, do you think that cheques will be used at all throughout the whole country beyond the Presidency towns?—Not within any period that I can look forward to myself. They will be confined to the Presidency towns' business.

3882. And that is very nearly covered by cheques, I should think?—I supposed so until I read the complaint I have previously mentioned.

3883. Still, the fear of curtailing the currency note issue by reason of the increased use of cheques is rather problematic, after all?—I should think cheques would rather be an addendum to the note circulation than a substitution for it, granted a continuous expansion of trade.

3884. A good deal has been said about the surpluses of the Government in India and their application. I believe it is a fact that the development of the country would have been crippled very much unless those surpluses had been devoted to productive works. That being the case, do you still object to those surpluses having been created, so to speak, by taxation?—What has happened apparently is that the revenue of the Government of India has been anticipated by a year or more; in other words, the Government has collected more for a given year in some shape or form, from opium or from railways or from the taxpayers, than it should have done; in other words, the taxpayers of the country have been deprived for that one year, or for a longer period, of the use of their own income or money, as the case may be—of their own products, the Government having deliberately withdrawn that from the taxpayer. The rupee with which he paid his tax is only a token, but what has really happened is that an equivalent amount of produce has left the country as against those taxes, and the taxpayer has lost by paying his taxes before they were due.

3885. There is a school of finance in India who hold the opinion that a steady unfluctuating rate of taxation, not reducing immediately there is a surplus, but keeping it as steady as possible, operates better for the welfare of the inhabitants as a whole, because the surplus is returned to India in the shape of productive works from which the agriculturist benefits. You do not hold that view, possibly?—I do not object to the revenue being kept on what you would call apparently a normal basis, and I do not object to taxes not being reduced in such circumstances, but I do object to taxes having been imposed when events have proved that with a little more optimism they would not have been required.

3886. With regard to the loans by Government to the Presidency banks and others, you suggested that the Government should lend at somewhat below the bank rate; otherwise the market—you used these words—would not be tempted to borrow. It is not the business, you will admit, of the Government to tempt people to borrow their money, is it?—I agree, only I think the question arises in connection with the duty of the Government to assist trade by loans in India as well as assisting the London market by loaning in this country. That is how I put it. If you make it the duty of the Government to assist trade by loans, then you certainly must make it the duty of the Government to assist it at a rate which will be a profitable one to the trade that it is helping. If the Government is going to exact the uttermost farthing it puts an impediment on the free use of its balances. I think that Lord Faber put the matter on very sound ground when he suggested practically putting them up for tender. I think that would quite meet my views, and it is a much better way of putting it than I had myself ventured to suggest.

3887. It is a notorious fact that India cannot borrow enough money for its development on the terms of the present moment. Do you think by increasing the rate of interest we should get all we want in that way?—India is not singular in that respect in these times, and the loans which were raised in India in rupees stand at

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a very high figure comparatively. I have always been inclined to think of late years that the Government might often borrow better in India and increase its balance in India rather than face the very much oppressed London market.

3888. Have you any remarks to make on the subject of the largely increasing exports of gold to India? Do you think, for instance, that they would seriously interfere with the sale of Council drafts?—They have not done so.

3889. And you do not think that they ever will do so?—I do not see how they can if the Secretary of State meets his market freely. They will never ship gold if they can get Council bills at a better rate. I have only mentioned the specie point in connection with new coinage, remember. Otherwise I should suggest that the Secretary of State will do the best for himself if he meets his market freely.

3890. I gather generally from your memorandum that if existing interests are safeguarded you have no objection to the institution of a central bank or a State bank?—No, certainly not. My only objection to any State-aided institution is that it might interfere unfairly with private enterprise. I think that what is wanted in India, as in most other countries, is more private enterprise and less State interference.

3891. It is suggested that because there was no popular demand—I think those were the words—for such an institution, therefore it should not be given, but I would ask you, as a man with Indian experience, whether in most matters in India there is not very little popular demand?—In what way am I to understand that popular demand?—on the part of the European community?

3892. I mean there is very little expression of opinion?—Very little. Opinion there is not focussed in the same way as it is in this country.

3893. I think I heard you say that you had no experience of the hundi market?—I have no personal experience of it.

3894. So perhaps it is no use for me to ask what is your opinion as to the value of the hundi as a document?—As a security, no.

3895. You do not think it is particularly sound?—Not being acquainted with it, I would rather not answer.

3896. When the Fowler Committee used the term "gold" in connection with the Gold Standard Reserve do you think that they meant to include sterling securities?—No, certainly not. I think their report is extremely clear and decisive. May I just read you two or three words that I had noted about that point? The following words seem to me quite decisive on that point. In paragraph 60 of their report, speaking of this Gold Standard Reserve, they say it is to be kept "entirely apart from the Paper Currency Reserve and the ordinary Treasury Balances." That implies, I take it, absolutely, that it was to be kept in India, because otherwise, if it was to be kept in another country, why put in the words "entirely apart from the Paper Currency Reserve and the ordinary Treasury Balances"? It must be apart if kept in England. Therefore, I think the very fact that they said keep it apart from those things which existed in India must imply that it was to be kept in India. With regard to what it consists of, the following words taken from paragraph 59 seem to me rather conclusive, "if the exchange showed a tendency to fall below specie point, the Government may remit to England a portion of the gold which it may hold." I can only read that to mean if they had gold in India they should remit gold back; and again, "when it has accumulated a sufficient gold reserve, and so long as gold is available in its Treasury, it might discharge its obligations in India in gold."

3897. And that was the general commercial opinion throughout India?—That it was to be held in gold? I will not say whether I consider it an unwise or wise system, but I think the present system is working better than the one suggested by the Fowler Committee would.

3898. (Chairman.) You said just now, in answer to Sir Ernest Cable, that you thought the Indian Government might with advantage borrow more in India and less in London?—I do think so.

3899. You added that you thought that what India, like a great many other countries, suffers from at the present time is an excess of Government enterprise, and that it would be an advantage if more were done by private enterprise?—I think that is always the case, especially in India. It would be an advantage if more opportunities were given to private enterprise.

3900. Do you think that the Indian Government could reduce their need for borrowing for development purposes if they made the terms rather more attractive to private enterprise to carry out the same works?—The accusation has been made for years, and repeated, and I have read a great deal on the subject, that the promoters of railway enterprise have great trouble in securing concessions for the construction of railways in India. That has been a complaint of long standing. How far it is justified I do not take upon myself to say, but that it has existed, and has been repeated, is a fact.

3901. Have you heard much complaint, or any complaint, as to the use by the Indian Government of their rights of pre-emption?—When railways have been taken over by Government there have been loud complaints at times.

3902. Do you think that some change of policy in those respects would lead to the influx of private capital in larger amounts than has been the case?—Now that the exchange value of the rupee has been secured, I certainly think it would. Previously, with open mints and an unstable currency, I should not have thought so.

3903. You would desire the Indian Government, then, I gather, to take into their serious consideration whether they could not attract more private capital, and so lower their own needs for borrowing, by some revision of their policy in this respect?—Yes, I do.

3904. You spoke in your précis (Appendix XIX., page 544 paragraph 6), and I think in answer to Sir Robert Chalmers, of the greatest need of the present time being a code of clear regulations on the subject now engaging the consideration of this Commission?—Yes.

3905. In answer to Sir Robert Chalmers you suggested certain regulations in respect of the Gold Standard Reserve. I do not think that you mentioned any other subject on which you thought new regulations desirable?—It was in connection with that part of the précis headed "Gold Standard or Gold Currency," (Appendix XIX., page 543) and I was thinking solely of the maintenance of the rupee and the regulations necessary for that end in making those remarks.

3906. The regulations you had in mind were such regulations as you have spoken of in dealing with the Gold Standard Reserve, were they?—Yes.

3907. You wish them, I think, to be statutory regulations?—I wish the Government to undertake, either statutorily or in any other binding form, its responsibility with regard to this currency.

3908. You have also expressed the desire that the amount of the Gold Standard Reserve should be fixed, not by mere guesswork, but on some definite principle or analogy?—Analogy, principle, or experience.

3909. You have told us at what amount you would fix it if you followed what you called the analogy of the English bank?—Yes, I have.

3910. But I do not think you have told us at what amount you would fix it if you acted in the light of the experience of the crisis of 1907-8?—I think it figures out to very much the same. Taking the loss of gold at 17 millions, plus about 3 millions Council bills, the shortage for the year speaking from memory, was about 20 millions or 21 millions, and I said there should be 50 per cent. for apprehension, which would run to 30 millions again, which would be the same figure as I got by the other formula.

3911. And of that you would in the same way keep half in actual gold?—I suggested that as a basis.

The witness withdrew.

At the India Office, Whitehall, S.W.

TENTH DAY.

Thursday, July 3, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Lord KILBRACKEN, G.C.B.
Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.

Sir JAMES BEGBIE
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Sir ALEXANDER McROBERT called and examined.

3912. (*Chairman*.) Would you be good enough to tell me briefly what your Indian experience has been?—I have been 29 years in India, and I have been the whole of that time engaged on woollen manufacture. I have been chiefly resident in Cawnpore, but I also have a close connection with an associated institution in the Gurdaspur district of the Punjab.

3913. I think for some time you were president of the Upper India Chamber of Commerce?—I was.

3914. You were also a member of the Legislative Council of the United Provinces for eight years?—Yes.

3915. Do you appear before us to-day in a representative capacity?—Yes. I have been nominated by the Upper India Chamber of Commerce.

3916. May I ask you first about the balances? What do you say about the cash balances in London in recent years?—From the returns I find that the closing balance on 31st March 1910 was nearly 13 millions; the following year it was 16,700,000*l.* and in 1912 it was 18,400,000*l.* Then apparently in the course of last year they began to use up these balances, and it was reduced to something under nine millions on 31st March 1913, the normal working balance, as I understand, being approximately four millions.

3917. Do you regard the recent balances as unnecessarily high?—It is a little difficult to answer that yes or no, because it is like being wise after the event. I have no doubt the India Office uses a wise discretion in keeping its balances up, and it seems a little hard upon them now when we know all about it to say that they should have done something different.

3918. You do not blame them, I understand, for not having foreseen that their balances would be so high, but looking back on events with the wisdom which comes afterwards, you think they were higher than they needed; does that represent your view?—As regards the criticism that I would offer, it is really in a way limited to what seems to me the somewhat unnecessary renewal of India bills during that period.

3919. Do you think outstanding India bills might have been paid off?—I do think so. Might I mention in what respect I find that they might have been paid off, even assuming that the India Office could not see into futurity?

3920. Please?—I find that the first year of what might be called an abnormal balance was the year ending 31st March 1909. The balance then was just under eight millions, which is about four millions more than is regarded as a normal working balance. The following year it jumped to 12,800,000*l.*; then the figures I have just mentioned follow—16,700,000*l.* and 18,400,000*l.* The figures I have here relate to 1910–1. During the year 1910–1, after having started with four millions in excess of the normal working balance, the loans floated were 7½ millions and the debt discharged only 1,800,000*l.* During that year India bills were renewed in April to the extent of one million, in June to the extent of 2½ millions, and in December to the extent of 1½ millions. Apparently

the following year, starting with a surplus balance of 10 millions, these same bills were once more renewed with the exception of half a million, that is to say, in April there was a million, in June two millions, and in December 1½ millions.

3921. I understand you to suggest that the India Office might properly have used a part of those surplus balances to pay off those bills as they fell due?—Yes; my suggestion is that that might have been done.

3922. It might have been done with advantage in the first of the two years, and if it had not been done in the first it should have been done in the second?—It might have been done in the second.

3923. It has been put to us in evidence on the other side that this renewal of bills or raising of loans was done in accordance with the budget estimates, and before the unexpectedly favourable results of the financial year were known; what would you say to that?—I find that Mr. Montagu, in the House of Commons on 30th July last year, explained that the balances were largely due to under-estimating in India, meaning I take it, under-estimating revenue. It seems fairly clear that he was substantially correct. At the same time the India Office knew that they had these opening balances.

3924. Do I understand you to think that with the knowledge they had they might have revised the estimated programme, and it would have been wise to do so?—I think so.

3925. Have you ever considered whether the date at which the Indian financial year begins could be altered with advantage, from the point of view of enabling the finance minister to estimate more accurately the prospects of the year?—I have not considered the point.

3926. I am right, am I not, in thinking that the realisation of the estimates in India depends almost entirely upon the results of agriculture?—Precisely.

3927. And therefore on the weather?—Yes.

3928. And that the estimates have to be made at a time of the year when the weather is still impossible to forecast?—Quite so.

3929. Have you any objection to the system of lending out Indian balances in London?—No, I do not think I have. It seems to me that since the balances existed they were better in London than anywhere else; they could not have been used in India, and they could be used in London. Apropos of those balances, a certain income was derived from them, so that really the only loss, assuming that they had paid off the bills I speak of would be the difference in the rate.

3930. Did I understand you to say that the balances could have been lent out in India?—The balances in India are not available for the purpose of lending as they are in London, although it seems to me that if the India Office can lend in London there is no reason why the Government of India should not lend in India.

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[Continued.]

3931. You would like, then, to see the balances in India made available for lending?—Whenever that is practicable; whenever the Government of India feel that it would be safe to do so.

3932. To whom, do you think, they should lend in such circumstances?—I am inclined to let them lend to anybody who would give the proper security, but primarily I would say to the Presidency banks.

3933. Would you be inclined to make a list of approved borrowers in India on the lines that have been followed in London, or to say merely within the limit of our means we will lend to anyone who deposits certain named securities with us?—I think that, at least at the beginning, I would certainly limit it in the first place to the Presidency banks, and perhaps the exchange banks if they care to have it.

3934. I understand that from them you would ask security?—Yes, I would.

3935. What securities would you lend on?—Government paper.

3936. Would you include Port Trust securities?—I think I should.

3937. Indian railways?—I do not think any such securities are to any extent held in India.

3938. Suppose the Government had been in the habit of lending out up to, let us say, a sum of two millions in the busy season, and suppose they had done that for two or three years, and then there came a year in which their balances were not sufficient to enable them to make the loan, do you think that would have any serious effect upon the Indian money market or trade?—It might cause a little extra inconvenience until matters adjusted themselves, but in the end they would be no worse off than they are now.

3939. You do not think that they would be worse off because they had come to expect this relief from the Government?—That, I am afraid, is more a matter for a banker to say. I should not like to express an opinion on that.

3940. Do you not think it rather likely, if they had received this assistance from the Government in several years, and suddenly, in what was probably a rather difficult time, they found that the assistance was not available, that they would be inclined to criticise and complain of the Indian Government?—I think I would start rather with the assumption that it is hardly conceivable that circumstances could arise that would make it inconvenient for the Government of India to lend a million. The money market in India is extremely narrow, and the difference of a million one way or the other would make a vast difference in a so-called stringency.

3941. At what rate would you propose that the Government of India should lend to the banks?—When the bank rate comes to 6 per cent., I should then consider the Government of India might come in and lend their balances at 6 per cent.

3942. At the actual bank rate?—Whenever the bank rate goes above 6 per cent., I would let the Government of India give it to the banks at 6 per cent., no matter what the bank rate may be above that. The banks must make something.

3943. Would you allow them to make the full difference between 6 per cent. and whatever was the bank rate at the time?—I would.

3944. Even if the bank rate had gone to 8 per cent.?—Quite so. I am not sure that, on full consideration, I would limit it to 6 per cent., but I think 6 per cent. would be a fair basis on which to start.

3945. In recent years I think the bank rate has only been for very brief periods above 6 per cent.; do you remember?—During this last cold weather the rate has been steadily high for a good many months.

3946. Has it been 7 per cent. and even 8 per cent.?—It has not gone up above 8.

3947. Is the rate a fairly universal rate over India, or does it vary very much, for instance, as between Calcutta and Bombay?—Madras is rather higher than Bombay and Calcutta; but Bombay and Calcutta jump together with fair regularity.

3948. Would you lend equally to each of the Presidency banks?—I would if they would give the same security.

3949. Without regard to the particular local rate of interest?—Without regard to that, except that anything over 6 per cent. would be a point at which I would authorise the Government of India to begin to lend from their balances.

3950. I take it that this proposal involves the assumption that at the busy time of the year the Government of India would have surplus money lying idle in its treasuries?—Broadly speaking, that is the case.

3951. Suppose that it came to the conclusion that it was safe to lend that money, then, under your proposal, it would lend it for about three months of the year, I presume?—I take it that if such a scheme were in operation, it would not be needed for more than about three months.

3952. What would the Government of India do with the money during the rest of the year?—What they do now.

3953. Leave it idle?—Yes.

3954. Suppose they once came to the conclusion that it was safe to lend it, might it not be worth their while to lend it for six months or 12 months?—If they could do so on terms that would suit them.

3955. They could afford to take a lower rate of interest if they could lend it for 12 months than if they could only lend it for three months?—I think one must consider that if the Government of India is run properly, it would not have these surplus balances all the year round.

3956. I rather gather that you think the balances in India as well as in London have been unnecessarily high in recent years?—I do not feel that very strongly.

3957. Have you any comments to make on the system of reserve treasuries?—No; I think it is a very judicious arrangement.

3958. It necessarily locks up a good deal of Indian money, does it not?—It does.

3959. Do you think that more is kept in these treasuries than is needed?—No, I do not.

3960. I go now to another subject, but a cognate one. What is your view as to the suggestion which has been made for a State or central bank? Do you think that is a scheme which should be promoted?—I do not think myself that there is room for a State bank. My attitude to the proposal is not one of hostility, but I see difficulties in the way of carrying it out. To begin with, India could not utilise the capital which would be provided by a large State bank; I see some 14 millions are spoken of—India has no use for that.

3961. Do you think that one central institution could meet the needs of the different localities, the different Presidencies, as effectively as the three existing institutions?—I do not think a central institution could by any possibility be as efficient in its working as the present Presidency banks are in their own localities.

3962. From what you have said in the *précis** you were good enough to send me, I gather that you think a State bank would necessarily imply so much official control as practically not to relieve the Indian Government of any of its present responsibility?—That is my view.

3963. Some people have thought that it would be a good thing if the management of the paper currency could be handed over to such a State bank; you do not share that view, I think?—I do not.

3964. Nor do you see any advantage in transferring the management of the exchange business to a central bank?—I do not. I think it is done very well now.

3965. Is it not a necessary result of the present system that separate reserves have to be kept for banking purposes, for currency purposes, and for exchange purposes, and that as long as they are separate reserves, more money must be locked up in them than would be the case if one institution had all the responsibilities and maintained a single reserve to meet them?—That is to a large extent true, but it

* Printed as Appendix XX., page 547.

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[Continued.]

might happen that the drain upon both reserves came at the same time. If the Government of India were instructed to make its balances, no matter in what box they are kept, available for purposes of trade at the time the money is wanted, it seems to me that would meet the whole case.

3966. In paragraph 6 of Appendix XX. (page 547) you say: "Each of the three Presidency banks has evolved a practice adapted to its own environment, and their absorption by a State bank would in a large measure involve the sacrifice of the advantages to trade which this specialisation secures." I may take that as your considered opinion, may I?—It is.

3967. I gather that you attach importance to that, because both the conditions of the money market and the conditions of business vary so greatly in different parts of India?—That is so; it is due to the seasons being different and the crops being different.

3968. So that you think it of great importance that there should be local management?—Yes.

3969. In order that the policy of the banks may be directed to meet the local requirement?—I think so.

3970. You have told me that you are opposed to the transfer of the management of the notes to a bank; but suppose that that were to be recommended, do you think that notes managed and issued by a bank would have the same free currency that they have at the present time?—I do not think they would. At the first outset, anyway, they would be looked upon with suspicion.

3971. They would not inspire the same confidence as notes directly backed by the Government of India?—I do not think so.

3972. Under those circumstances would you anticipate that there would be considerable restriction in their use?—I would expect a restriction in their circulation.

3973. In that part of the country with which you have been most familiar—I think it is the Punjab, you say—are notes now largely in use?—They are not so much used in the Punjab as they are in the United Provinces; at least, that is my experience.

3974. Does gold circulate to any considerable extent in the Punjab?—Gold does circulate in the Punjab, I think, more than it does in the United Provinces, because in the country districts now it is very rarely that payments in gold for produce are objected to. The cultivators will accept payment in gold when previously they would only take silver rupees.

3975. When they are paid in gold can you follow the gold at all and form any opinion of what becomes of it?—One instance has suggested to me quite lately that it probably is being used for the purposes of hoarding. In Cawnpore we have a village with nearly a thousand houses for workpeople, and just before I left India in March one of our workpeople reported that his house had been robbed. I saw him, and he explained the property that had been taken, and he said it included 12 sovereigns. That seemed to me to be at least symptomatic of what was going on.

3976. Are sovereigns used in payment of wages in Cawnpore?—My own practice, ever since the sovereign was made legal tender, has been to pay all wages in gold as far as it would go, that is, so long as we could get gold. For about three years we could not get gold—about 1907–8–9—but when we can get gold we invariably used it for paying wages.

3977. May I ask why you made that rule? Why did you prefer to use sovereigns instead of notes, for instance?—It was in accordance with my personal sentiment. They did not like it at first, but I wanted to educate them.

3978. You think it an advantage then that they should use gold as currency?—I think on the whole it is.

3979. Would you explain why?—It is more portable, it is easier hidden away, and after all it is the standard of value throughout the world.

3980. It is more portable and more easily hidden away than silver?—That is so.

3981. But it is not more portable or more easily hidden than notes?—No, but the people who use

notes are hardly the people who would be using the sovereign.

3982. Why? Is it because the sovereign is too little, or too much?—The ordinary native—I am speaking now of the small man, the workman—does not handle notes much. It is metallic currency that he believes in.

3983. The general note circulation has very much increased, has it not?—It has.

3984. Do you think it might be further increased if the notes were entirely universalized, or do you think that the universalization of the higher denominations would have much effect?—If that were done it would simply mean that the Government of India would be financing all remittances, because remittances from one part of the country to another would be sent in currency notes, as that would cost nothing. If they were encashable at any treasury it would be the obvious form of remittance, just like a London cheque in this country.

3985. Therefore you would not recommend that course to the Indian Government?—I do not think that the Government of India should undertake the responsibility.

3986. Have you considered the possibility of extending the currency by means of a more elastic note issue?—I have not considered it very closely, but it seems to me that there really is no difficulty in getting notes when one wants them.

3987. At the present time the amount of the fiduciary portion of the notes is fixed by statute, I think?—Yes.

3988. Do you think that the fiduciary portion is as large as it ought to be, or might it, under present circumstances, be safely increased?—I think it might be safely increased.

3989. To what limit would you go, approximately?—I think, on the whole, that a maximum ought to be fixed, and that maximum should not be worked up to except when there is some exceptional demand.

3990. One witness has suggested to us that instead of a fixed figure for the invested portion of the reserve there might be a maximum proportion, say 40 per cent., which, as you have just said, would not habitually be worked up to, but that the free balance of it should be made available for loans to trade in times of stringency?—What has happened in the past is simply this—that as the note circulation has increased enactments have had to be passed in order to increase the fiduciary portion, and, if instead of leaving it like that a percentage were fixed, then it would be unnecessary to pass these regulations, and they would act automatically.

3991. I want to ask you a question now about the capital expenditure of the Indian Government; do you think they might raise more in rupee loans?—I think they might.

3992. Roughly, to what extent do you think they could borrow in India?—I would not like to put a figure to it, but judging by the result of the last two loans, when they got over 96 in India and 93 in London, it seems to me that it would be very unwise to borrow in London so long as India was willing to give 96.

3993. Would you always prefer to borrow in India when the terms in India were more favourable?—India's revenue is in rupees, and as far as possible I think the debt should be in rupees.

3994. That leads me to the next question I was going to put to you. Suppose that the conditions are slightly less favourable in India than in London, would you, for the reason you have just stated, pay a fractionally greater interest in India?—I think I should.

3995. I want to return for a moment to a question of the banks. Do you recommend any material changes in the conditions now prescribed to the Presidency banks?—In my précis I mentioned that I thought they should be allowed to lend upon any marketable security in India. That is the only alteration that I should propose.

3996. You would not propose to give them access to the London money market?—No. My reason for

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[Continued.]

proposing that they should be allowed to lend upon any marketable security is that that is what they do in fact now. One of the regulations is that there must be two names to the document, and one of these names might be that of the office chaprassi, for all the Bank of Bengal cares. They do not want the second name, they know one name is good enough, and it is almost a subterfuge to have the second name. Moreover, it would incidentally have the effect of giving those firms of money agents, who charge one per cent. for the use of their name under these circumstances, no excuse for doing it.

3997. As regards the sale of Council bills, I understand that, broadly speaking, you have no criticism to make on the present practice?—No. It has occurred to me sometimes that the sales might be held oftener than once a week. That is about the only difference I would mention.

3998. Intermediate bills are sold, I think?—Yes, they are.

3999. What would be the advantage of having the sales more frequently?—Sometimes people are rather anxious to know what the rate is going to be, and if they have got to wait a week for it, it keeps the strain up.

4000. You say in paragraph 13 of Appendix XX. that you would suggest "that all sales should be put through at 1s. 4d. and all accounts kept on the basis of 1s. 4d."; what exactly do you mean by that?—When Council bills and telegraphic transfer are sold at anything over 1s. 4d., I would put the difference to this reserve fund; and when the Council bills are sold at less than 1s. 4d. I would draw the difference from that fund.

4001. Would you create a special reserve fund to balance the exchange transaction?—Precisely; it would be a subsidiary reserve which would be first used.

4002. What would be the special object of that plan?—If a gold currency becomes really effective in India, it means that the profit from the coinage of silver would be reduced, because there would not be so many rupees wanted. Since my précis (Appendix XX., page 547) was sent in I have found that apparently the Government of India, or perhaps I should say the India Office, do, as a matter of fact, make their accounts at the rate of 1s. 4d., and the difference is treated as a revenue receipt. For the year 1910-1 there was a profit of 70,000*l.* and for the next year it was 106,000*l.*; so if this plan of mine had been adopted there would have been, as the result of those two years' operations, a reserve of nearly 200,000*l.* in sovereigns if used now for exchange below 1s. 4d. I may say that it is a practice which I have followed ever since the exchange was fixed at 1s. 4d., and my own fund was sufficient to meet the drain in 1907-8-9—it was not exhausted when the rupee came back to 1s. 4d.

4003. Having regard to the existence of the Gold Standard Reserve, would you not be rather duplicating the effort in the case of the Government of India?—Yes; but my object would be to have a fund which might be used in what might be called normal conditions. This special Gold Standard Reserve would come into play when there was a crisis.

4004. Perhaps it is hardly within the scope of our reference, but I think you are of opinion that the fixing of the rupee at 1s. 4d. has been beneficial to India?—I am.

4005. And in particular to Indian trade?—Yes.

4006. From what you have told me I gather that you yourself would desire to see a gold currency in India?—My attitude to that question is not so much that of an advocate of a gold currency on utilitarian grounds, but more for sentimental reasons, perhaps, and for considerations of prestige.

4007. Does that lead you to have any marked preference for the sovereign over a 10-rupee piece, say?—I have no hesitation in preferring the sovereign.

4008. Supposing that the object were, for any practical reasons, to get a large gold circulation, do you think that the sovereign would circulate more

freely than the 10-rupee piece?—I do not really think it would, for the reason, amongst others, that the payment of wages so often falls between 10 and 15 rupees—it is 10 rupees and over, but not over 15 rupees. For trade payments, the advantages of it are rather less.

4009. Do you attach any considerable value to gold in circulation as a support to exchange in times of difficulty?—I do.

4010. On what is that opinion based?—On the broad ground that if the gold is there it will come out if it is wanted.

4011. Does experience support that opinion?—I think upon the whole it does.

4012. Take the crisis of 1907-8; very little gold came out then, I think?—That is true, except what came out of the Government treasuries.

4013. Roughly, I think my recollection of what we have had in evidence is that the Government treasuries paid out something like 4½ millions, and of that only about a quarter million was exported. And the rest does not appear to have been of much benefit to exchange at that moment?—That would be so. At the same time, if there had been a mint then it is conceivable that gold would have been brought for coinage.

4014. Would you be in favour, then, of the establishment of a mint?—I do not favour a mint because I think it would be a profitable thing to have, but because it is a luxury I think the Government of India could afford.

4015. You are not advocating it very warmly, then?—No, I am not.

4016. Your reason for advocating the gold mint is the same as your reason for advocating the gold coinage; it is a matter of prestige and sentiment?—Precisely.

4017. As regards the Gold Standard Reserve, have you anything to say about the place where it ought to be kept?—I think in the case of the Gold Standard Reserve the bulk of it ought to be kept in London.

4018. Would you keep any portion of it in India?—I do not think I would go beyond the silver portion of the Gold Standard Reserve.

4019. Let me ask first as to the total. To what limit do you think the Gold Standard Reserve ought to be brought?—I would be inclined not to stop until the total amounts to 30 millions.

4020. Of that 30 millions how much would you advise should be kept in actual gold?—I think Government should work up to 10 millions in London.

4021. Would you keep any gold in India as well?—No, not for the Gold Standard Reserve.

4022. Having put by your 10 millions in actual gold, would you be prepared to invest the remaining 20 millions?—I would.

4023. In what class of securities?—Roughly, exactly the classes of securities in which the present balance is held—chiefly Consols.

4024. Not in short-dated securities?—I do not think there would be any need to have it in short-dated bills then.

4025. Provided that you have got a large reserve in actual gold as your first line?—Yes.

4026. As regards the rupee portion of the gold reserve, that is, as regards the silver in the gold reserve, what have you to say? Do you think it ought to be there?—I do not think there is occasion for very much criticism on it, because the object of it is to have a supply of rupees in the event of the ordinary stocks running down. It is merely a convenience.

4027. You would, I think, agree that the primary object of the Gold Standard Reserve is to support exchange?—Precisely.

4028. But the object of these rupees, as you put it to me, is to support the currency notes?—That is quite so.

4029. Does that not rather point to the conclusion that these rupees ought to be in the currency reserve, and not in the Gold Standard Reserve?—How it strikes me is that it is merely making a convenience of the Gold Standard Reserve.

4030. And you do not mind its being made a convenience of?—No.

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[Continued.]

4031. I think that is exactly the way that some critics would express their criticism—that the Gold Standard Reserve, which ought to be expressly kept to maintain exchange, was being made a convenience of for other purposes, but you do not see any objection to that?—I do not, and, as I say, my approval of the five millions of rupees in India is merely because the fund exists, and it may as well be used for that purpose.

4032. But your approval is conditioned by only a small proportion of the reserve being so held?—That is so.

4033. Have you anything to say on what was done on one occasion—and I think has never been repeated—namely, the diverting of a portion of the profits which ought to have gone to the Gold Standard Reserve to railway construction in India?—I think it was quite wrong.

4034. You would allow nothing to interfere with the accumulation of the Gold Standard Reserve until it has reached the limits that you have expressed?—Nothing.

4035. Do you think the Government of India should undertake now definitely to give a sovereign for every 15 rupees whenever demanded?—No, I would not go so far as that. It might land them in consequences which one does not foresee just at this moment, but if they follow their existing practice of doing it, so long as it does not cause inconvenience, I think it will meet the case for some time to come.

4036. Would you think it an advantage if the conditions governing the Gold Standard Reserve could be more expressly determined and given statutory force?—That would, to a certain extent, be almost doing the same thing as undertaking to give a sovereign for 15 rupees, and I do not see that the Government of India would be quite justified in undertaking that unqualified responsibility.

4037. You do not think it would be quite safe for them to do it at the present time?—I should hesitate to do it.

4038. May I put my question in this way. Do you think that it is a thing which it would never be desirable for them to do, or do you merely think that they would be a little rash to do it under present conditions?—I do not know that I should put it quite as strongly as that, but I do feel that it would not be quite a safe thing to do under present conditions.

4039. Have you any observations to make as to the purchase of silver bullion for coinage?—I have suggested that instead of buying a large quantity at one time it would probably be cheaper in the end if it were announced at the beginning of each year that the Government intended to buy so much silver. As far as I can make out from the figures of the 10 years ending last year, the average annual demand was three millions sterling.

4040. Has there been a steady demand throughout the years, or has it varied very much from year to year?—It varies a good deal.

4041. If, therefore, the Government of India were to purchase regularly, they would in some years have a good deal more than they required?—Yes.

4042. And to that extent they would have locked up money uselessly for the time?—But they would probably be buying their silver cheaper than if they were cornered. Bombay would try to corner them.

4043. Do you think that in the long run what they lost in interest they would gain in the price of the silver?—I do think so.

4044. (Lord Faber.) I understood you to say in the course of your evidence just now that you are in favour of the Indian Government lending out these balances in India, if possible, on approved script?—I did say so.

4045. Do you think you could get the kind of script that the Government would require, for any amount of money there?—I think you would get sufficient script to cover such advances as the banks would wish to get.

4046. That is the difficulty which some of us feel, whether these securities are to be had in India? If the money is to be lent, are the securities to be had against it?—Take the Bank of Bengal which holds Government paper that rarely falls below a crore and

a half; that means that they could easily raise one million sterling upon it, and a million sterling thrown into Calcutta would make a vast difference to the money market.

4047. I think probably they could manage a million. I was thinking of larger sums. I am perhaps being guided more by what happens in England. Would a million give you a good deal of relief in Calcutta?—A million sterling certainly would.

4048. I understood you to say that you would lend that at a fixed rate of 6 per cent. if the bank rate was as high as 6 per cent.?—I would.

4049. Would not an awkward position arise? Could you lend to certain specified borrowers at 6 per cent. when other people might easily have to pay 8 per cent.; would that not make a good deal of talk that certain buyers were being put at an advantage as against the rest of the community?—I do not think so. I do not see why the banks should be asked to work for nothing.

4050. What I have in my mind is, would it not be safer to lend the money at the market rate? A bank, when it gives what it calls the market rate, gives what it thinks it can make a profit on. Why fix the rate at 6 per cent.? Why not take the market rate, and if the bank will pay more, let it pay more?—Of course if you do, the banks will not make anything, and the banks must make money.

4051. The banks will always tender if they can get it at 6 per cent., because they would be able to lend it somewhere else at more than 6 per cent. A bank can take care of itself, as a rule, I think?—I think we are assuming that nobody else has money to lend except the Government of India.

4052. My point is, why should the Government of India lend even to a bank at 6 per cent., when possibly the bank, if the market rate were higher, would give a good deal more than 6 per cent.?—I see no objection.

4053. Then you would fix the rate at 6 per cent.?—No.

4054. I thought in your evidence you said you would make a fixed rate of 6 per cent.?—Perhaps I am misunderstanding you.

4055. Suppose the Government want to lend out money in India and the bank rate is 8 per cent.; do you propose to lend the banks that money at 6 per cent.?—Yes. I should begin, whenever the bank rate went up to 7 per cent., by lending the money at 6.

4056. Why lend the bank money at 6 when the market rate is practically at 8?—Because the banks must make something out of it. They do not work for nothing.

4057. Is it safe, do you think, to lend Government balances for 12 months? Is that not rather long for the Government of India?—I should never recommend anything of the kind.

4058. This seems to me an interesting question, which perhaps you will be able to answer: Do you think India is hoarding gold in the true sense? For instance, is it secreting bars; do the natives of India buy gold bars; are they hoarding gold in that sense?—That I cannot tell you; it is not within my knowledge.

4059. Or are the Indian people now in a position to keep in hand a certain amount of what we call at home pocket money?—They have more money than one suspects.

4060. You know that in England there is a very great deal of what we call gold used as pocket money—a great many millions?—Yes.

4061. I thought that that state of things might have arisen in India, as India is so prosperous. I think I understood you to say that you are in favour of raising the loan in India if it can be done, rather than in England, if the rate is nearly equal?—That is so.

4062. You are of opinion that it would be better for India to hold its debt at home, if it can?—I am.

4063. Do you think you could raise a big loan in India such as you sometimes, I think, raise in the London market—four or five millions at a time? Could you do that in India, do you think, or would you

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exhaust the market?—I should not be prepared to say, but I think there may be ways of doing it.

4064. In 1907 and 1908, those two bad years in India, you say that little gold came in sight outside the treasuries; in other words, little gold was brought out by that bad time, and it did not appear?—The Government treasuries were emptied of gold.

4065. And they did not fill them up at all from the outside?—Apparently not.

4066. That was because there was little gold in circulation I suppose at that time?—That might have had something to do with it; it is conceivable that that might explain it in part.

4067. Since 1907–8 many millions have been imported into India?—The big import has been in the last three years.

4068. Now about the gold reserve; do you think 10 millions of what we have been told here to call metallic gold is enough?—I do, because in the crisis of 1907–8 it was only necessary for the Government of India to sell drafts on London for just over eight millions.

4069. If you have gold securities in the Gold Standard Reserve would it be possible, do you think, to sell those securities in a time of crisis and get gold for them? A gold security is a very good thing, but you would agree that it is not the same thing as gold?—No, it is not; but the assumption is that you have 10 millions of metallic gold to start with, and you are not obliged to begin selling on an extensive scale at once if you have got 10 millions to go upon before you begin to use the proceeds of your sales.

4070. Supposing that you have two bad years in India, two deficient monsoons together, then you might be in the position of having to sell your securities?—No. I think what would happen, even if you had two bad years in succession, would be that the imports into India would decrease tremendously, because the purchasing power would be so much reduced.

4071. (*Sir Ernest Cable.*) In paragraph 9 of Appendix XX. (page 548) you refer to the possibility of the use of cheques being gradually increased throughout the country. Do you think, knowing the natives as you do, that that would be a very speedy process?—No; what I had in my mind more particularly was the European community using cheques more. The native does not, to any great extent, use cheques for large amounts.

4072. And it is not likely that he will?—I do not think so for a long time to come.

4073. He uses hundis, of course?—Yes.

4074. That is a very reliable form of document, is it not?—It is quite good.

4075. Are they discounted, or re-discounted, by the banks in Cawnpore? Are hundis dealt in?—It used to be the practice for the native marwari to advance money upon hundis to even European firms, and they went straightaway to the Bank of Bengal and discounted these hundis and pocketed the difference. They were able to borrow on better terms at the Bank of Bengal than the borrowers.

4076. The Bank of Bengal did discount them?—They did.

4077. A good deal has been said this morning about the capabilities of borrowing in India. It has been suggested that largely increased sums could be obtained at a slightly increased rate of interest; you agree with that, I understand?—I am afraid I do not quite follow.

4078. I think it was brought up by Lord Faber, and you said, I think, that large sums could be borrowed in India by the Government?—You mean by raising loans?

4079. Yes?—I am not in a position to say that large sums could be raised in India on Government loans. I only know that when the last loans were issued in India and London, in England the whole loan was placed at 93 and in India they got over 96.

4080. But such borrowings as those would not bring out the hoards that you have been talking about?—I do not think so, except you mean the hoards of the native states.

4081. Not the hoards in the pockets or the dhotis of the people?—Not the hoards of the small man.

4082. No means have suggested themselves to you for making those large hoards available for the commerce of the country?—I think the co-operative credit banks are working in that direction, because those banks are mutual, and the members are largely the cultivators who have no doubt small hoards.

4083. You mentioned 30 millions as what I may call your high water mark for the Gold Standard Reserve; but you mentioned that figure without any particular method of calculation, I suppose—it is just your feeling about it, is it not?—I do not know that I could give a mathematical reason for fixing 30 millions, but to my mind it looks to be quite sufficient.

4084. I was only going to put it to you that we might make a calculation on some logical basis of this sort—say, two years' requirements of the Secretary of State?—Roughly, I had that in mind. What is called the annual demand by the India Office comes to about 18 millions or 19 millions. You have the analogous case of Russia. Russia keeps abroad in gold roughly 18 to 24 months of her requirements to pay for what she has to pay in gold in other countries. To a certain extent the economic position of India corresponds to that of Russia.

4085. I gather from your remarks about the various reserves, the Paper Currency Reserve and the Gold Standard Reserve, that you would have no objection to throwing those reserves together?—No, I should not.

4086. You think it would make for simplicity of management, perhaps?—I do not know that I would make a strong point of advocating it, but I see no objection to it.

4087. (*Mr. Gladstone.*) Referring to the question of temporary loans in India, you have mentioned that the Bank of Bengal, for instance, hold about a crore and a half of Government rupee paper, but in addition to that they would probably hold, would they not, considerable amounts of Port stocks and of municipal bonds of the Presidency towns?—Quite so.

4088. And also of sterling Indian Government securities?—I do not know the details of their holdings.

4089. Therefore, probably the amount available would be very much larger?—Quite probably.

4090. It is probably within your knowledge that the Bank of Bengal would think nothing, for instance, of taking up the whole of the Rangoon Port Trust loan for 50 lakhs itself?—Quite so.

4091. If sterling Government of India securities were included that would also bring in, would it not, Government railway scrip; and there is no reason, if the Presidency banks hold India Sterling stock, why they should not also hold Indian Government Guaranteed Railway stock?—That is so.

4092. I think there has been a special enactment allowing the Presidency banks now to advance on scheduled Indian railways, whether they are on a rupee basis or not?—Yes.

4093. So that altogether the amount of securities available from the Presidency banks would be pretty considerable?—Certainly.

4094. I think Lord Faber referred to your suggestion of a fixed rate of 6 per cent., and as a sound economist rather suggested that it would not be very prudent for the Government to accept 6 per cent. when perhaps they might obtain 7 or 8 per cent. from others. We have had it in evidence already that the exchange banks do not care about holding those securities which would enable them to accept these loans, and that practically there is nobody else except the Presidency banks holding any sufficient amount of security; therefore the question reduces itself to one of lending to the Presidency banks?—I am aware of that.

4095. If it is reduced to one of lending to the Presidency banks, there does not seem quite the same objection to having a fixed rate of 6 per cent., as that might be most effectual in checking a rise in the bank rate, and that would be for the general advantage of the country?—I understand that the exchange banks would not be particularly anxious to take the

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Government of India's money on these terms. They were quite content to leave it to the Presidency banks and get what they wanted from them.

4096. With regard to the placing of permanent loans—and you very aptly quoted 96 in India and 93 in London—it is the fact, is it not, that the investment by natives of India in high-class securities is extending very considerably?—That is not within my knowledge.

4097. You probably do know that a certain number of small railway schemes are now being financed in India?—Nominally, but I have heard it said that in actual fact they are financed in England and competing with borrowings by the Secretary of State.

4098. I am now talking of companies with rupee capital under the branch line terms?—I understand that.

4099. You would not be inclined to favour rather better terms being offered in India in order to encourage such investments locally, because you think that they are really taken up or backed in London?—If one could be quite certain that the money is being raised in India, I think it would be quite a good thing. The more you give the native of India an interest in his own country, the better.

4100. Could you tell me whether you are acquainted with the practical working of the small up-country treasuries?—No, I am not.

4101. You could not say if the balances are carefully watched and moved about to the greatest advantage?—No.

4102. Would you favour, so far as possible, the substitution of Presidency bank branches for the small treasuries, where that could be arranged, in order to effect economies, as a bank presumably by doing commercial business would be able to work more economically than a Government working simply its own treasury?—I should doubt that. I am inclined to believe that the Presidency banks now go where they think it will pay them.

4103. But whether it will pay them or not in these rather distant up-country places really depends upon the terms which they get from the Government, either as regards the minimum balance or the payment of certain charges?—Precisely. The balances in India that are held under the control of the Presidency banks away from the Presidency towns are liable to be taken up at any moment. They have no security on the balances they hold, and they cannot use them, because they may be taken up the next day.

4104. (*Chairman.*) I would like to ask one question in that connection; suppose that the Presidency banks opened more branches and the Government were thereby enabled to close some of their treasuries and transfer their balances to the banks, would the banks be able to work with smaller balances than those now kept in the treasuries?—I would not like to give an opinion off-hand.

4105. (*Mr. Gladstone.*) Arising out of that question, perhaps I might suggest that they may be able to utilise these balances better than the Treasury?—If they have the same security which they have in Bombay, Calcutta, and Madras, that these balances will not be reduced below certain amounts.

4106. (*Mr. Keynes.*) Can you tell us in what class of transactions you find it possible in your business to use cheques?—Speaking of my own business, I use cheques in practically every case, no matter what the kind of payment, except for wages and salaries, which I always pay in cash.

4107. Are these cheques paid into someone else's banking account, or is it merely the way by which payees get money from your bank?—It so happens we pay largely by cheque, because we keep accounts both in Bombay and Calcutta as well as in Cawnpore, and a good many of our payments have to be made in Bombay and Calcutta, and naturally we then issue a cheque upon Bombay or Calcutta to save bank exchange.

4108. If you are buying produce from an Indian trader would you pay him by cheque?—Very rarely. He probably wants either currency notes or actual cash.

4109. Then these cheques which you mention are paid to English merchants?—That is so, largely.

4110. And except when you are making payments to other English merchants you would not use cheques much?—No; broadly speaking I should not.

4111. If you were paying some one in Calcutta and you had not got a banking account in Calcutta but were drawing on a bank which had not an office there, would your customer in Calcutta be satisfied by that means of payment?—I should not do it in that way. I should buy a draft from a bank in Cawnpore that has an agency in Calcutta.

4112. You suggested that there ought to be a certain relaxation of the conditions now prescribed for the Presidency banks; I have not quite understood what relaxation it was that you wanted?—The only relaxation I asked for is that, instead of the regulation by which they are only allowed to advance on a document with two names on it, you should allow them to advance money upon any marketable security, because when they advance upon some such document as a promissory note with two names on it, which simply means that it is for the benefit of one of the parties only—not for the other—the bank takes some form of collateral security which is really what they are lending on, and not upon the names at all.

4113. The banks can at present lend on security which is deposited with them, or the title to which is deposited with them?—It depends on the nature of the security.

4114. What is the kind on which they are not now allowed to lend, and on which you wish them to be allowed to lend?—Such things as shares.

4115. But they can lend on some forms of shares now. You wish them to be allowed to lend against any form of marketable security which does not represent immovable property?—That is so.

4116. You would not include immovable property?—No, I would not include immovable property.

4117. The important part of the relaxation is that they should be allowed to lend against shares and debentures of companies?—That is so.

4118. The bank rate in India commonly reaches 7 or 8 per cent. in the busy season; would you regard it as of great importance to the country that that high rate should be reduced?—I think it would be a very great convenience to trade if you could look forward to the rate not going beyond 7 per cent. at the worst.

4119. Do you think it a serious burden on trade that the bank rate should go so high?—I think it is a drawback. It is a drain upon the trade of the country. It is a levy.

4120. In the United Provinces and the Punjab you are within the sphere of influence of the Bengal Presidency Bank, are you not?—Yes.

4121. But the seasons, the crops and the methods of doing business are very different from those in, say, Eastern Bengal?—I cannot speak of what happens in Eastern Bengal, except that it is generally understood that there it is chiefly silver that is wanted in payment of crops.

4122. Do you find that the Bengal Presidency Bank is able to adapt itself to the methods of Northern India?—I think the Bank of Bengal in particular—and I can speak of it from some personal knowledge—has laid herself out, of recent years, to adapt itself to meet the needs of the country much more than it used to do.

4123. You have found no inconvenience in the Presidency Bank of Bengal having to direct operations over such a very large area of the country embracing such different conditions?—That is more for the bank manager to say.

4124. You, as a trader, have not found any inconvenience?—I have not observed any difficulty.

4125. You say in your précis that the Presidency banks and the exchange banks are prosperous concerns that have been tried in adversity and emerged triumphantly; is there now in India another class of banks of which that is not true?—I think there is. I think there are a large number of commercial banks that are a danger.

4126. The Presidency banks act as bankers' banks to a large extent both for the exchange banks and also for these mushroom banks?—They do, just as the

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Bank of England acts as a bankers' bank here. As regards the prosperity of the Presidency banks it must not be forgotten that, although they are paying now a dividend, and a handsome dividend, upon their original capital, they are not paying very much upon the actual capital employed, because, roughly speaking, the reserve in hand at each of the banks is equal to the capital, so you should divide the return you get upon your capital by two.

4127. Do you feel perfectly certain that the Presidency banks are strong enough to relieve all probable difficulties in the next banking crisis, taking account of the fact that they will have to bear the burden not only of their own deposits, but also of the deposits of other banks in India?—I look forward to their doing that.

4128. You think they are in a strong enough position to do that?—I think they are equal to it.

4129. Would they be in a stronger position if their reserves were amalgamated, and if they were in direct connection with the Government?—Let me say this: When I give that answer I am assuming that the Government of India are prepared to let the Presidency banks have the advantage I have spoken of. I am not speaking of the Presidency banks now with their existing resources and entirely cut off from any recourse to the Government balances.

4130. You are assuming that in a crisis the Government would come to the rescue to some extent?—I think to the extent to which they can advance the money upon proper security.

4131. You do not think that a central bank which was an amalgamation of the Presidency banks, and which was in direct and habitual communication with the Government, would be in a stronger position to meet a general banking crisis in India than the three separate Presidency banks now are?—I do not know that it really would, because, after all, that bank would have no larger resources without the Government of India than the banks have now.

4132. You do not think that the banking reserves of the country would be strengthened if all the available resources were in one reserve rather than if they were in scattered reserves?—Except that in the eventuality of the drain being upon both kinds of reserve at the same time, it would make a larger sum available in a liquid form.

4133. The currency notes, I believe, are in the form of promissory notes of the Government of India?—Yes.

4134. The management of the note issue might be taken over by a central bank without the Government of India repudiating the ultimate responsibility of the notes, and without their form being altered?—That might be done.

4135. In that case would the confidence that they inspire be reduced?—There would not be the same reason for it if you keep the form of the note.

4136. So that you would advocate the form of the note, at any rate, not being changed, even though the management of the note issue was changed?—I do not quite see how you could maintain the form, and still make it an issue of a State bank; but assuming you can do so I do not see that there is any objection to it on that score.

4137. With regard to borrowing in India, would it be a good thing do you think to introduce some new form of security, such as railway securities with a guaranteed minimum interest and a share of the profits; would that be attractive to the Indian investing public?—I do not think it would make much difference.

4138. Then you think there would be no advantage in that over rupee paper?—I do not think it would be an inducement.

4139. With regard to the profits of the mint, in paragraph 18 of Appendix XX. (page 549) you say that the Indian mints, as now run, make a profit of over 100,000l., even when they are slack and coining no new rupees, from the purchases of silver?—Quite so.

4140. Do you mean by that the profit on the coinage other than rupee coinage?—Other than rupees and half rupees—four annas, two annas, bronze and

nickel coinage, and also a certain proportion of trade dollars.

4141. With regard to the purchase of silver let us suppose that your system of purchasing three millions a year or two millions a year had been in force over the last 10 years; after a long interval coinage began in 1901, and in that year two or three millions would not have been enough?—No; but when I speak of two or three millions I have reduced it to an average.

4142. I am now applying that to an actual case. In 1901 you would have to exceed your average?—Yes.

4143. You would have to pay for that by going below the average of 1902, 1903, and 1904?—You would be obliged to.

4144. In 1905 there was heavy coinage again, and, as you would have bought nothing in 1902, 1903, and 1904, in order to bring your average down, in 1905, 1906, and 1907 you would have had to buy very large sums?—You would have had some reserve to fall back upon to begin with. You would have been accumulating the portion of your annual buying that you had not used, if you were to buy, say, a minimum of two millions, and when the price is favourable there is no harm in going to three millions.

4145. If nearly all the coinage was in 1901, 1902, and 1903, or nearly all in 1901, you would find yourself in 1904 with a small reserve?—That is so.

4146. There was a heavy coinage in 1905, 1906, and 1907, in which years you would have had to have bought very much more than your average?—I take it that you would, if you had been below your average.

4147. On the actual facts as they were, you would have had to buy more than your average in those years?—Yes.

4148. Then in 1908, 1909, and 1910, in order to bring it down again to your average, you would have had to have bought no silver?—During those years the Government of India were holding off coining because they wanted to fight the Bombay corner, and they endeavoured to get as many people as possible to take sovereigns in payment of Council bills.

4149. This is quite a new fact to us. Is it one on which you have evidence, that the Government were deliberately refraining from coining?—I am taking it as a belief; I am not in a position to say it was a fact, but that was the public opinion.

4150. That the Government were forcing sovereigns on the people?—I am assured it is the case that they tried to do so.

4151. They had very large reserves of rupees in those years?—Then why did they want to coin?

4152. They did not want to coin?—The general belief is that they held off to the very last moment before they began to buy, and then they had to take steps to circumvent Bombay.

4153. You are speaking now of 1912, not of the period 1908–12?—I am.

4154. In the period 1908–12 they would have had to refrain from buying silver in order to bring down the average, which had been spoiled temporarily by the very large purchases in 1905, 1906, and 1907?—Yes. If I am asked to say whether I should recommend spasmodic purchases of silver or steady purchases, I should plump for steady purchases.

4155. I was trying to suggest that if you had the rule of steady purchases it would not have made the slightest difference?—In that event you would have been no worse off.

4156. I am putting this point, that if you had applied your method to the last 10 years, it would not have worked?—I will take your word for it.

4157. If you were to apply it to the next 10 years, you would base your average upon the demands in the last 10 years?—It looks to me very much as if my theory is correct, that the Government of India held off buying as long as they could, if the average annual demand is rather more than three millions, because you came to a point when they were at starvation.

4158. My own opinion is that an assertion that the Government were holding off was only true of a very few months, but I will not press you further on this question. The points I was trying to

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bring to your notice were, first, that your plan would not have worked for the last 10 years, and, secondly, that for the next 10 years, 10 years being a long period in the currency habits of a country, it would be dangerous to buy, perhaps, years in advance on the basis of that rather remote experience?—Do I understand you to say that if the Government of India had begun 10 years ago buying silver at the rate of not less than two millions a year, the sum they would have had to pay for that silver would be at least as much as they had to pay when they bought eight millions straight off?

4159. I am saying that they could not have kept the programme of buying two millions a year, and that they would have had to have bought much more than two millions in some years, and therefore much less in others?—I take it that you have worked out the prices?

4160. I have worked out the figures of the annual demand for coinage?—And on the average monthly rates for silver during that period, it would have cost the Government of India as much as it did when they had to buy a large quantity?

4161. My argument is simply based on the assumption that you could not buy in the years 1908, 1909, and 1910 silver which you wanted to coin in the years 1905, 1906, and 1907?—That is so, but I have not suggested that you would not buy more than two millions a year if you wanted it, but I would buy two millions in a year I did not want it and make up the balance when it evened itself out.

4162. (*Sir Shapurji Broacha.*) In former years, before 1911, the Secretary of State had smaller balances on this side; you said four millions?—Prior to 1909–10. As a matter of fact, the period of abnormal balances began with the year ending 31st March 1909.

4163. The four millions balance was not a large balance?—It is a very good sum.

4164. India has a debt of 500 millions to England, always?—500 millions of what?

4165. Pounds?—In what form? That is not the debt of India.

4166. Yes, that is the debt?—It is under 300 millions.

4167. No, 500 millions altogether, including the rupee paper and including the reserves?—It is 276,281,000.

4168. You do not count the rupee debt and the whole railway debt?—That is counting all the debts.

4169. Never mind, we will not dispute about that. The Secretary of State has to provide the materials for the Indian public works?—Yes.

4170. Taking all these things into consideration, it is a very small balance to keep here in order to be prepared for all contingencies. India had a surplus revenue during the last four years of about 20 millions, I think?—Yes.

4171. Of that surplus revenue, the opium revenue and the railway revenue together make up a sum of 13½ millions, and the further surplus was 6½ millions. Do you think with a progressive country like India a surplus of 6½ millions in four years is excessive?—It depends altogether on what you want to do with your surplus, or what ground you can give for getting it. If getting this surplus means that you have levied high taxation, it is wrong.

4172. I am taking a progressive country like India. Russia, for instance, had a surplus during the last two years of something like eight or nine millions?—What do you mean by a surplus under those conditions?

4173. I mean that you make your budget for a certain amount and what exceeds that amount is a surplus?—Yes, according to the budget.

4174. Do you consider, having regard to all the contingencies of India, that a million and a half a year is an excessive surplus?—I do not know. I would rather not give an opinion as to whether it is excessive or otherwise.

4175. There have been complaints made about excessive surpluses and about taxation that ought to have been reduced at once?—There is no doubt that the income has been estimated with very great caution.

4176. Should not India's income be progressive because the country is advancing by leaps and bounds?—I think there is no doubt that the question of the amount levied by taxation would have been taken into consideration if it had not been that the time is coming when even more will be wanted. It is like getting the toad accustomed to the harrow.

4177. As I said, there was 13½ millions of windfalls from opium and railway excess; could they have used that surplus in India?—I think they made a very good use of it as they did, by paying off the debt.

4178. They were right to use it as they did?—I should think so.

4179. Do you know what the practice of other States is in keeping large funds in foreign countries?—I have mentioned what one might call the classic instance of Russia.

4180. Are we not to be bound by the example of other countries in estimating the Secretary of State's balances?—I am not sure that we are not bound by the Secretary of State's practice.

4181. In judging the Secretary of State, are we not to have those examples before us?—No. I would prefer to hold the Secretary of State's practice up as an example to them.

4182. We will not discuss that. Do you think the Secretary of State was right in using that surplus balance as he did?—I think he was quite right, seeing he had it.

4183. And the surplus balance would be no good in India?—As a matter of fact there was a surplus balance in India, too, but it did not do much good.

4184. India having a surplus, that surplus was no good in India?—None whatever.

4185. If they do not use it at once, I think they must wait until it is allocated to certain uses and certain ways and means?—That is what I understand is the only way of dealing with it.

4186. Do you think money ought to be lent to the Presidency banks when money becomes dear?—I do.

4187. And you fix the rate at 6 per cent.?—I think 6 per cent. is a fair thing to start with.

4188. When the bank rate is raised to 6 per cent., do you not think the Government should commence lending money at 1 per cent. less, so as to give the Presidency bank some profit?—No, I do not think so.

4189. If the money is lying idle, what would you say of the Government?—There is a lot of money lying idle now. Income from your funds is not always the first consideration.

4190. Suppose the Government could spare seven or eight crores to trade, and lent that to the Presidency banks when the rate is 6 per cent., would there be any harm in their doing so?—It would be an innovation, and I would be disposed to wait until the rate went beyond 6 per cent. before I gave them anything.

4191. Is there any harm in lending six or seven crores?—I see no harm in it, but I think the occasion would not have arisen then.

4192. You have been in India for 29 years, I think you told us?—Yes, I said so.

4193. The money market in India has very much widened during the last 29 years, has it not?—It has become a different thing altogether.

4194. And you cannot base your lending on what you experienced in 1874?—I daresay not.

4195. Money is dear from December to March?—Yes; it begins to get dear in November, usually.

4196. Is that owing to money going for revenue into the pockets of the Government of India, to a certain extent?—No. It is due, in the first place, to the need of money to pay for the jute crop of Bengal which is followed immediately by the demand for money to finance the rice crop in Burma. A great part of that does not come back to India.

4197. That is the trade demand, but independent of the trade demand the money goes for revenue payments to the Government of India?—Naturally; once the crops are harvested, the revenue payments begin.

4198. In every country the Government money is given for use by commerce?—I do not want to be tied down to that.

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[Continued.]

4199. I say that is the fact in every country?—To a limited extent, perhaps, but it wants qualification.

4200. In every country they make loans in order to finance the trade of the country, and they do not put the money in the Government vaults. In England, for instance, there are 18 millions at the Bank of England now?—How much of it is borrowed?

4201. (*Chairman*). Does not that 18 millions include funds in the Court of Chancery, and all other subsidiary funds?

4202. (*Sir Shapurji Broacha*). It includes all the Government funds. If money for three months becomes dearer, it is due to the Government of India keeping that money in their hoards and not putting it out into use?—I would not hang them for that.

4203. And I would not hang them for it; I do not think they have bodies to be hanged. Do you think that the Government of India should lend from their surplus balances?—I do.

4204. And even if those surplus balances at that time happen to be at home, would you get them back?—No; I say subject to the convenience of the time.

4205. I think it is your experience now that money is much cheaper and more easily obtainable than it was 20 years ago, or 10 years ago?—It is cheaper than it used to be in India.

4206. Do you know how much money is raised in India for loans now every year? Is it not about three crores for the Government and about three or four crores for the municipalities, the Port Trusts and the Improvement Trusts?—Yes, that is the annual amount raised.

4207. Do you know that the $3\frac{1}{2}$ per cent. sterling loan is 9 per cent. cheaper than the rupee loan—that it is under 87 now, whilst last year the rupee loan went at 96?—Or rather over.

4208. And it is expected to go to 96 this year?—That I will not say; I cannot tell.

4209. Do you know that there is a large amount of money coming out in the native states and in Upper India for local railway loans?—Yes; I believe Bombay has obtained a very large sum from the states.

4210. Do you know that a good deal of railway work is stopped by the dilatoriness of the Government of India, or of the Secretary of State, in giving those concessions?—I do not know that I should make that statement. I have no doubt whatever that the Government of India considered the matter very carefully, and to charge them with dilatoriness under the circumstances I think is not quite correct.

4211. So you are agreed in this, that the Government could lend safely six or seven crores to the Presidency banks during the busy season?—I would let them fix the amount; I would not fix it in advance beforehand.

4212. There is no danger of that if the funds are available. You would not commit yourself to the amount?—No.

4213. You are not in favour of a State bank?—No. I am not antagonistic to it, but I am not an advocate of it.

4214. Do you think it would be too large a concern?—I do not think it is needed, and I see obstacles.

4215. Do you see any difficulty in stating where it should be—Bombay, Calcutta, or Madras?—Yes.

4216. Do you think the Presidency banks are doing the work equally well?—I think the Presidency banks are doing very well indeed, and are very accommodating.

4217. There has been a fear expressed that if you lent in India six or seven crores on Government paper at a time of trade demand, the money would not be returned when wanted; apparently you do not believe that?—I do not think there would be any difficulty; I would not anticipate any difficulty.

4218. Even now money is very cheap in India?—Very cheap—2 per cent.

4219. Although the rate of the Bank of Bombay is 5 per cent. and the rate of the Bank of Bengal is 4 per cent., do you know that in Bombay money can be had at 2 per cent.?—Yes. You are very fortunate in Bombay.

4220. And do you know that there are no borrowers at present at 2 per cent.?—I could find a borrower.

4221. The money would certainly return in the monsoon after the busy season?—Yes.

4222. There is no fear of that money not returning when it is wanted?—I should think not.

4223. Do you know whether the exchange banks can borrow on rupee securities in England?—I have no doubt London takes care of itself.

4224. If they could borrow in India or England on securities, I think the Presidency banks would be equally safe and equally careful to see that they are not tied up when the money has to be returned?—Provided security is given, I would not mind.

4225. Why do you want more frequent sales of Council bills; they can always buy them everyday at $\frac{1}{32}$ higher than the rate fixed on the preceding Wednesday?—That I was not aware of. They might not want to give the $\frac{1}{32}$; they might be expecting it to be $\frac{1}{32}$ lower.

4226. You said you wanted to educate your people by giving them sovereigns?—I wanted to accustom them to the use of gold.

4227. Did they not use it before?—No.

4228. You know that before 1900 when the standard was established they used to have three or four millions imported every year?—That was used for ornaments; they were shield sovereigns, and were used for necklaces and things of that kind.

4229. How do you know they do not use sovereigns for ornaments now?—I take it they do. They are all used up.

4230. Do you think it is any benefit to force gold on people when 15 rupees can buy the same quantity of food?—Yes, because, after all, if you have a gold exchange standard the natural step afterwards is to have a gold currency, if you can do so economically. The only alternative would be notes.

4231. A gold currency means that you would have to give gold when demanded?—It does not mean a gold standard.

4232. Let us understand the distinction. A gold currency means that you must give gold when demanded?—To make it effective that is the only way to do it.

4233. A gold currency means you have to give gold, or it is not a gold currency?—That is so.

4234. Suppose they had tried a gold currency, in 1908 when they stopped giving gold the gold currency would have been a failure?—That is so.

4235. Is it prudent to risk that failure in another year?—I have not asked them to do so; I have not recommended it.

4236. A good deal of silver bullion has been purchased, and some say Government has made the silver currency redundant, do you think they did?—I do not quite follow you.

4237. It is said that the coining of an excessive number of rupees in the past few years has made a great redundancy of currency, and prices have gone up, do you believe that?—I do not know that that is the reason why prices have gone up.

4238. Do you say that is not the reason?—I do not say that; I say I am not clear about it.

4239. Has a redundancy of rupees raised prices?—I do not know that there has been a redundancy of rupees.

4240. There is no redundancy of silver now, is there?—I do not know; I have not heard that there is.

4241. If they had not bought that seven millions of silver last year there would have been no rupees left, because the rupees went down to about 11 crores?—I understand that there was great need for rupees when they began coining last year.

4242. Your idea is that they should buy silver every year, is it?—I think they should average their purchases.

4243. But they have to buy more silver in the years when they want more rupees?—That is so.

4244. Would you like to refuse to give a man 15 rupees if he presents you a sovereign, and say: No, we will pay you only in sovereigns, not in rupees?

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—What they say now is: If you bring me a sovereign I will give you 15 rupees.

4245. When they pushed sovereigns in Cawnpore in the beginning of 1901, and also in Delhi and other places, the sovereign went to a discount, did it not?—I have known sovereigns at a discount of four annas.

4246. (*Chairman.*) When have you known that happen?—About the earlier years, 1899 or thereabouts. Then, when the people did not know the sovereign, they were very chary of accepting it, and if a man were paid a sovereign in his wages and he went into the bazaar he only got 14 rupees 12 annas for it.

4247. Has that ceased entirely now?—That does not happen now.

4248. (*Sir James Begbie.*) With regard to your remarks on the Presidency banks and the conditions under which they work, you say that you are not in favour of any material change in the conditions now prescribed for the Presidency banks?—Except in the one particular that I have quoted.

4249. Are you aware of any other banks without a note issue that work under similar restrictions?—No.

4250. When you say the banks, if given access to the London markets, will merely be competing with the exchange banks, do you mean that the object would be to do exchange business?—I assume they would do exchange business, and also take deposits.

4251. If the Presidency banks had authority to borrow in London against the securities they hold might it not be an advantage to India if that prevented the bank rate rising to a high level?—Yes, if it were to operate before the 6 per cent. rate was exceeded, under the terms of the advances from the Government balances, assuming that that is conceded.

4252. Do you know whether the Presidency banks require to remit money to England on behalf of their constituents?—Yes, they have to do that.

4253. Constantly?—Yes, that is quite a usual thing.

4254. Are you aware whether all the exchange banks are equally willing to supply the Presidency banks with drafts on London?—That I cannot tell you.

4255. Do you know whether the rates of exchange at which the exchange banks sell drafts on London to the Presidency banks are always the best rates of exchange?—I think they are usually as good as you can get from the exchange bank direct. That is my own experience. As a matter of fact I always set the one against the other, and as often as not I deal with the Presidency banks.

4256. I am talking about bills bought by the Presidency banks; you do not know about that of your own knowledge?—I do not know of bills; I am speaking of buying drafts on London.

4257. I am talking of drafts bought by the Presidency banks from the exchange banks. You do not know, do you, whether they always get the best rate of exchange?—If you buy a draft of the Presidency banks on London they would do it through one of the exchange banks.

4258. You do not know what rate of exchange is given?—No. I give the market rate.

4259. Do you prefer the Presidency banks?—If the Presidency banks give me as good a quotation for my draft as the exchange banks I would probably give the preference to the Presidency banks.

4260. Do you find that the Presidency Banks sell drafts on London?—They do.

4261. On their own account?—On their own account through their agent in London.

4262. Are you aware that the exchange banks compete with local business in India?—Yes, they do.

4263. There is no restriction in the number of exchange banks, and they may engage in any business in India?—There is no restriction that I know of.

4264. A new bank can be started any day?—Yes.

4265. I am afraid I did not quite understand what you meant when you said you would fix the rate at 6 per cent. for loans from the Government from the Gold Standard Reserve; why do you fix the rate at 6 per cent.?—Because I think it is fair.

4266. Would it not be fairer still if you made it lower?—I would not object to its being lower; it would suit me well enough. As I say, it is something in the nature of an innovation, and I would not begin too low. It might be found that you could go a little lower afterwards, but it is an experiment and I should prefer to start at six.

4267. Do you think that the trade of the country is usually financed without difficulty under existing conditions? Do the periodical high rates of interest not indicate some degree of difficulty?—I do not think so. I do not think myself that there is a great difficulty in financing the trade of the country at any time.

4268. Regarding the note issue of a State bank, do you not think that a bank, if given an interest in the profits of an extended note issue, would be in a better position to push the circulation than a Government department?—I am not sure that it would. What would you mean by pushing circulation?

4269. Increasing it?—By compelling a man to take notes if he wanted gold, or what?

4270. A bank can usually give some inducement, can it not?—What would it offer?

4271. If you make it worth while, it might offer a reduced rate of discount?—Would you give notes at a discount?

4272. No, I would give notes in payment of bills discounted?—If a man wanted rupees or gold, you would hardly force the notes on him.

4273. I am talking about giving an inducement; a bank could induce notes to go into circulation when it discounted a man's bills, could it not?—There is no doubt that the bank is in a position to promote the circulation of notes, under the circumstances, better than a Government treasury is.

4274. There is another point I was not very clear about. You said that the absorption of the three Presidency banks by a State bank would result in the sacrifice in a large measure of the advantages to trade which the present system secures. Why should there be any sacrifice at all?—Because the knowledge that a Bombay bank manager has acquired now would not be of very special use to him if he were transferred to Calcutta, say, or Madras. He has discovered the best way of handling his Bombay customer, which is probably a very different thing from the way he would handle a Bengalee.

4275. Would he not naturally be retained in Bombay for that purpose, where he was was most useful?—Very likely; but there you have got the experience of your board as well—your specialised board who know all about the conditions.

4276. On the subject of Council bills, you do not see that it would be an advantage to transfer the business of exchange to a State bank?—No, I do not.

4277. Must you assume that the State bank would do exchange business necessarily?—Not necessarily, but that, I understand, is one of the objects of the proposal—that they should handle exchange, and manage it.

4278. As a matter of fact, we have not had any proposal before us yet. In the way of exchange how would the State bank do exchange business? Would it be confined only to the business of Government in remitting the home charges?—I think it would be better to ask a banker that.

4279. With regard to the home market in India, you agreed with Sir Shapurji, I think, that the market is now much more open than formerly?—I am quite satisfied it is.

4280. In your experience do the mercantile community as a whole require to borrow freely in the busy season?—Yes.

4281. And in the off season the loans are paid off?—That is what the off season means.

4282. Could that money not be made available for Government loans? Why is it that that money is not put into Government loans now?—Which money do you refer to?

4283. I mean the money belonging to the mercantile community which they hold in the slack season?—I do not know whether that kind of people would

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be disposed to lock up their money in Government loans. I take it that as a matter of fact the banks, for example, will buy Government paper during the slack season and sell it again when they want to realise in order to use their funds in a better way.

4284. Is it not your experience that the people are afraid of high rates of interest in the busy season causing a depreciation in the value of Government securities?—I think they are afraid of that; there is no doubt about it.

4285. Then if we can bring about a condition of affairs where we should do without these high rates of interest in the busy season, that would be an advantage not only to trade but to the Government in the way of loans?—Yes; whatever is an advantage for trade is necessarily an advantage to the Government.

4286. (Mr. Gillan.) Would you object to the headquarters of the central bank being located at Cawnpore?—No.

4287. Perhaps on grounds somewhat similar to those which induced the Government of India to take its capital and administration to Delhi?—I am not sure that I know the whole grounds on which they made that move; but for geographical reasons I should say that Cawnpore is plainly indicated.

4288. There is one point in the local currency of Cawnpore which I wish to ask you about. Mr. Toomey and Mr. Fraser of the exchange banks gave us some figures (see Appendix XVIII., pp. 541-2) showing the proportion of gold, of notes, and of silver, which circulate at various centres; those showed, I think, that the proportion of notes in the Cawnpore circle is very small even compared with a place like Lahore. Can you suggest any reason for that?—What is it that takes the place of notes in Cawnpore—gold, or silver?

4289. It is difficult to say; gold, chiefly, I suppose?—That seems to me to indicate that gold is becoming more the medium of exchange, as notes used to be.

4290. But why should that be the case in Cawnpore especially?—That I cannot tell you.

4291. In reply to Mr. Keynes, you said that the Government of India had put off coining rupees as long as possible?—I said it was believed they had.

4292. I understood you to say that in order to do so they had forced the sovereign into circulation?—I have been told so.

4293. Do you know what was alleged regarding the forcing of sovereigns into circulation? When did it happen?—The name of the firm was given to me, as a matter of fact, but I would rather not mention it, because they will probably be represented here later. A very large firm was said to have agreed to take sovereigns in payment, because they could utilise them just as well as rupees. It is a firm that is in the habit of buying Council bills and telegraphic transfers.

4294. There are just one or two points in your memorandum that I wish to ask you about, as they are not quite clear to me. You say in paragraph 11 of Appendix XX., p. 548, "It seems scarcely correct to explain that any capital expenditure has been met out of surplus revenue"?—That is so.

4295. What did you mean by that?—When a man says that he has applied certain surpluses to capital expenditure, it is the same as though a man, who is making out a profit and loss account, were to say that he has debited capital expenditure to revenue when as a matter of fact that is not what takes place. When the India Office go through this operation, it is not quite so

simple as it looks. My understanding is that it is quite true that they pay this actual money for capital expenditure, but coincidentally they write off an equivalent amount of permanent unproductive debt and add the amount to what they call the reproductive debt; so that really the railway construction account is debited with its proper amount instead of its being paid out of revenue. It gives an impression that they are paying something out of revenue.

4296. Suppose you financed your railway programme partly by diminishing your balances, is that not coming out of revenue?—No, because if you do, you are adding to your reproductive debt.

4297. That may be the effect, but it is coming out of revenue, surely?—That is merely a question of words. In effect what happens is not that they pay anything out of revenue; they debit their railway construction account with the proper sum for capital, and do not reduce it by the amount paid out of revenue.

4298. Then you say in paragraph 24 of Appendix XX. (p. 549): "I do not approve the action taken in 1907, when over 1,000,000*l.* was taken from the reserve for railway development; I would even ask that the sum be replaced." How would you do that?—If you tell me what account was debited and what credited, then I will tell you.

4299. Would you reduce the railway programme in order to do that?—No.

4300. Where could it come from?—If need be, you could have taken that 1,000,000*l.* back into the reserve by raising a loan and putting it into the reserve.

4301. Do you think our position, considering what we hold now in the Gold Standard Reserve and in the Paper Currency Reserve, is so risky as to make this step necessary?—I say that it is not a question of necessity but a question of equity. That sum belongs to the Gold Standard Reserve, and I do not even now know whether that was debited with the reduced capital expenditure of the railways, or whether some equivalent sum was paid off a floating debt, because in the India Office accounts all payments for railways, whether it is on revenue account or construction account are, as far as the India Office is concerned, debited to capital.

4302. That is in the *pro forma* account?—In the Home Accounts you will find no entry whatever for railway stores, such as you will find for civil stores and military stores. It is all debited, as far as the India Office is concerned, to capital, and any allocation that takes place is done on the other side.

4303. Then you propose this, not because you think it is absolutely necessary, but on the broad ground that what was taken away from this fund ought to be given back to it?—That is all.

4304. (Chairman.) I think you said something, in answer to one member of the Commission, intimating that in your opinion some danger was arising in India now through the multiplication of banks with small resources; did I rightly understand you?—Yes, that is quite notorious. There are a large number of so-called banks that are only pawnshops.

4305. Has there been any movement in commercial circles in India with which you are acquainted, to ask for any action by the Government?—A movement has been made.

4306. What was the object of the movement? Did they ask for inquiry or for legislation?—They asked that some sort of restriction should be made upon the right of any organisation calling itself a bank.

The witness withdrew.

Mr. BHUPENDRA NATH MITRA, C.I.E., called and examined.

4307. (Chairman.) Will you please tell the Commission what your official experience in India has been?—I am at present holding the post of assistant secretary and budget officer in the Finance Department of the Government of India. I have been holding this post since 1910. From 1909 I have been employed as the officer of the Finance Department in

charge of the Budget, and I have still got to do this budget work in the post of assistant secretary, and am employed in that work for about three months; for the rest of the year I have got to do the other work which devolves on the assistant secretary proper. Previous to 1909 I was employed in the Finance Department for about three years as

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superintendent of the Budget Branch. Before that I was superintendent of the Budget and Resource Branch of the Comptroller-General's Office. I entered the Government service in the latter office in 1896, and the first four years of my service were passed in learning the work of the different branches of the office. In 1901 I was made superintendent of the Budget and Resource Branch of the office. I filled that post for about five years, of which about six months were passed on special duty, on work not connected with the Budget and Resource operations. Since 1906 I have been employed in the Finance Department as superintendent of the Budget Branch, then on special duty to work out the new budget procedure in connection with the enlarged councils, and lastly, as assistant secretary and budget officer.

4308. We have been told that the Government of India aim at having a normal balance of about 12½ millions on the 31st March; is that correct?—Yes.

4309. Can you explain what the need for a balance of that amount is?—The balance of 12½ millions sterling does not really represent the minimum balance with which it is possible to work the Indian treasuries. What happens in India is this: There is a period of low balances, and that usually happens about the beginning of December. After that we collect a large amount of land revenue, and the railway receipts and customs receipts are also very heavy towards the latter portion of the year. December is the period of low balances, and 12½ millions represents the balance which, in normal circumstances, the Government of India must have on the 31st March, so as to have a balance of 8 millions on the 1st December. Of that 8 millions, roughly about 4½ millions represent the minimum working balance which is required in the district treasuries; and about 1 million is the minimum balance required in the Presidency banks. It would be very inconvenient to work below the sum of 5½ millions.

4310. Do you mean 5½ or 4½?—5½. I think there are some papers of 1888, and 1898 also, in which Sir James Westland said it would be impossible for the Government of India to reduce the working balances in the district treasuries and Presidency banks below this sum of 5½ millions. The difference between the total minimum of 8 millions which I have just mentioned and this 5½ millions amounts to 2½ millions; and that 2½ millions represents partly a margin against possible risks and partly a reserve to meet famine and other unforeseen contingencies.

4311. When you speak of a reserve for those purposes, do you mean that it is a security against a failure of the revenue, or that it is provided in case expenditure should be raised?—The effect of famine arises in both directions. You may either have a partial failure of revenue, or you may have to meet direct famine expenditure, or you may have to issue large sums as advances to the cultivators. So that it is really a margin against a failure in revenue and also against increased expenditure. The ordinary margin against possible risks, which I have referred to, used to be taken roughly at 20 per cent. of the 5½ millions—that is, about one million. In 1901–4 there was some correspondence between the Government in India and the Secretary of State regarding the formation of a famine insurance fund. Lord Curzon's Government wanted to create such a fund by investing in non-famine years the half million which is appropriated every year from the revenues for the avoidance of debt; but the Secretary of State thought that it would not be quite proper to find the money in that way, and that the proper course would be for the Government of India to increase their treasury balances. As a result of this correspondence the minimum balance was increased from 10 crores to 12 crores. Of the latter amount 5½ millions sterling represent the money which is necessary to work the district treasuries and to meet Government payments at the Presidency banks. These 5½ millions include about one million which is at that stage kept in the Presidency banks; and the distribution of the 5½ millions is therefore 4½ millions in the district treasuries and one million in the Presidency banks.

4312. You speak of a million being required at that date—that is, in the early part of December?—That is so.

4313. That is required to work the Presidency banks?—Yes.

4314. Will you explain what you mean by that?—These Presidency banks carry on the ordinary treasury business at the headquarters of Government in the three Presidency towns of Calcutta, Madras, and Bombay. Government has to meet certain payments at these three places, and the money must be there so as to be available to meet these payments. The remaining 4½ millions is distributed among district treasuries, and that being so, I think it will be admitted that it is not a very large sum.

4315. When were these balances last reviewed by the Indian Government?—The minimum balances are practically reviewed every year. The procedure is that every year the Accountant-General of each Province examines the estimates of the minimum balances of the district treasuries, and makes any reductions or other alterations that he thinks possible. Then he sends up his estimates to the Comptroller-General, and if the latter thinks that the Accountant-General has allowed too large a margin he asks the Accountant-General to re-examine the figures and to make any possible reductions. I can show the Commission the last review of the Comptroller-General. As a matter of fact, these minimum balances have been rising in recent years.

4316. Why have they been rising?—It is firstly due to the increase in the number of district treasuries. A second cause is the increase in the volume and magnitude of the transactions. A third is that we are guaranteeing a minimum balance at all the new branches of the Presidency banks where the Government is transferring its treasury business to them. Those are the three main causes.

4317. I gather from what you say that the Government of India have been encouraging the Presidency banks to take over the management of the balances wherever they can?—Yes, that is so.

4318. And to open new branches for the purpose?—Yes.

4319. Does the inducement which the Government of India offer for that purpose always consist of their undertaking to maintain a minimum balance with them?—It is the practice nowadays to do so. In the case of the old branches there is no such obligation, but in recent years, when the Government of India has asked a Presidency bank to open a new branch at a place where the bank thought it would be unremunerative to do so with reference only to the local banking business, it has guaranteed a minimum Government balance. I think, roughly, there are about a dozen places where the Bank of Bengal and the Bank of Bombay have either opened new branches or have taken over the management of the Government balances on these conditions.

4320. In such cases has the net result been that the Government has had to maintain a smaller balance or a bigger one?—I should say, from the Comptroller-General's reports on minimum balances, that it has got to maintain a higher balance.

4321. Where they close a treasury and induce a bank to undertake the work, they are obliged to give the bank a guarantee that they will keep a higher minimum balance than they found it necessary to do while their treasury was open?—That is so, because the Government Treasury business is conducted mostly on these lines: We do not keep the whole of the cash balance at any particular place in the local treasury itself, but we have an attached currency chest, and any surplus treasury balance is transferred to the currency chest, and then forms part of the paper currency reserve. Then when money is required at that particular treasury later on, we transfer the money from the currency chest into the treasury, and make an opposite payment at the headquarters of the province or at some other place. In that way, if Government transacts the Treasury business by itself at a particular place, it can often manage with a smaller balance than the minimum sums which have been guaranteed to the Presidency banks.

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4322. If that is so, what is the inducement to the Government of India to close its treasuries?—Mainly because it is part of a policy to place larger amounts out of the Government balances at the disposal of trade in India.

4323. So that in your view the change has been costly to the Indian Government, but is worth doing in the interests of Indian trade?—I think so. Of course I could not definitely say that it has been costly, because against these increasing balances has to be set off the saving which the Government has made in its establishment charges, because as soon as the Government transfers the Treasury business at a particular place to the Presidency bank it can dispense with some portion of the old Treasury establishment, and it has not got to pay to the Presidency bank any sum to cover the establishment charges which the bank will have to incur. At the same time the effect of the arrangement, according to the Comptroller-General's reports, has in several cases been to raise the balances.

4324. Will you give me an example?—An increase of five lakhs in Bombay is attributed to the guarantee of minimum balances at the branches of the Bank of Bombay opened at Sholapur and Jalgaon.

4325. Is the increase in that particular case an increase of the Government balance at the headquarters of the bank?—No, at the branch banks. It is an increase in the minimum balance at the district treasuries. These minimum balances have gone up from something less than four millions to about 4½ millions in the last five or six years.

4326. In recent years I suppose the facilities of communication in India have very much increased?—Yes.

4327. Does it not strike you as, at first sight, rather surprising that, whilst the facilities of communication are increasing, the size of the balances should also be increasing? Would you not *prima facie* have supposed that with the increases in the facilities of communication it would have been possible to reduce the balances?—Of course, it is partly owing to the increase in communications that the balances have not increased to quite the same extent as it would have been otherwise necessary to increase them. The transactions of the Government have increased very largely. The number of treasuries has also gone on increasing and we have gradually acquired more territory—Burma and Berar, for instance. In spite of all that, the improvement in communications has enabled the Government of India not to increase its minimum balances beyond the figure which was practically fixed some time in the 80's.

4328. So that, though there is some increase in the total of the balances, they are smaller in proportion to the volume of business than they were several years ago?—Quite so.

4329. Just now you spoke, in cases where there were these treasuries, of the money being used or transferred to the currency reserve; what exactly is done with it when it gets there—what is the effect of the transfer?—The effect of that transfer is that we can reduce the balance of the district treasury and we can transfer the surplus balance to the headquarters, either of the Accountant-General or of the Comptroller-General.

4330. You put it into the currency reserve, and then you can transfer it to the headquarters of either of those officers—is that it?—What happens exactly is this: We open a currency chest, say, at Agra, and we put the surplus treasury balance there into the currency chest, but the total of the currency reserve is of course unaffected by this transfer, because we make a *per contra* transfer of an equal amount at, say, either Cawnpore, which is the headquarters of that particular currency circle, or at Calcutta, where the headquarters of the Comptroller-General used to be until a very recent date, and where the main currency office still is. In the latter case, the treasury balances at Calcutta are increased and the treasury balances at Agra are reduced; on the other hand, the balance in the currency chest at Agra is increased while the currency balance at Calcutta is reduced.

4331. When you want the money back into the Treasury at Agra, can you without difficulty reverse the transaction?—Yes; that is exactly what we do.

4332. The net result being that you, by the use of the currency reserve, free money where it is wanted from the reserve, and replace money in the reserve at the place where you have a surplus?—That is exactly so; in fact, the Government of India is saved the cost and trouble of actually moving this surplus money from one station where it is not wanted to another station where there is need for it.

4333. In spite of these facilities, which must be very considerable, the Government of India does not think that it can safely reduce the Treasury balance below the figure at which it now stands?—That is exactly the position. In fact, these facilities existed in 1888, and even long before. Sir James Westland, in a paper which I believe has been handed in by the India Office,* said it was possible for the Government of India to work these district treasuries with the small sum of 4½ millions, owing to the existence of this device of putting surplus money into the currency chest and transferring it through that channel to the headquarter treasuries.

4334. I gather, therefore, that the mere multiplication of branches of the Presidency banks would not enable you to work with any smaller balance?—Not a multiplication on the present lines; that is, if Government has got to guarantee a minimum balance when it transfers the Treasury business to newly-opened branches of the Presidency banks, I am afraid it will not be possible to reduce the minimum balances.

4335. When a guarantee of that kind is given, it is given for a fixed period?—Yes, it is usually given for a fixed period in the first instance.

4336. It would then be renewed at intervals, would it?—That is so.

4337. What is the explanation of the fact—I think it is a fact—that the balance in India on the 31st March this year was over 19 millions?—The main reason was that the Secretary of State was unable to withdraw the surplus accumulation to England by selling Council bills at what he considered to be a reasonable rate. Of course, it was helped by the fact that the Secretary of State paid for the large silver purchases which were made in England in 1912-3 out of his Home Treasury balances and not from the money which he had in his currency chest.

4338. The size of the balance was partly due to the use of the English balances for the purchase of silver, and partly to the Secretary of State's selling fewer Council bills?—That is so.

4339. How far does the Government of India control the amount of Council bills sold?—The procedure is something like this: The Government about the 9th of every month knows what its cash balances on the last day of the previous month were; then it calculates what portion of the balances is really wanted to meet the current requirements of India. The surplus so arrived at it places absolutely at the disposal of the Secretary of State, and the Secretary of State is quite free to draw the whole or any portion of it he likes to England by means of Council bills.

4340. So that the Government of India indicates to the Secretary of State a maximum, but the Secretary of State acts entirely on his own initiative as to what amount he sells within the maximum?—That is exactly so.

4341. Would it be possible for the Government of India to make loans from the Government balances to the Presidency banks?—That is a big question. It has been held in the past that such loans are not in the interest either of the Government or of trade. It results on one hand in an undue dependence of trade on Government money, and it may also result in Government locking up money, in the shape of loans to the Presidency banks, for which there may be a sudden and unforeseen demand. It has also been held that if Government lends money to the Presidency banks, the result will be that for the time being the demand for Council bills for trade remittances to India

* See Appendix II., pp. 42-7 and p. 55.

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will fall off, and that will affect the rate at which the Secretary of State sells his Council bills. Not only that, but it is just possible that it may also affect the total amount the Secretary of State may be able to obtain in a year by selling bills and transfers. Of course, if the Secretary of State cannot sell as much as he requires to finance the Home Treasury, the result will be some inconvenience both to him and to the Government of India in the long run.

4342. In recent years he has been able to sell more than sufficient, I think?—That is so. Of course it is possible that circumstances may have somewhat changed in recent years, and that there may not be now the same objection to lending money to the Presidency banks as there may have been in the past. I think possibly that the objection that these loans may interfere with the ability of the Secretary of State to sell the full amount of Council bills, which he requires to finance the Home Treasury, is probably not quite correct under present conditions, because I think the exchange banks in India must get as much money by means of Council bills or imports of gold as would be required to meet the balance of trade; and the result of the Government making temporary loans from its balances to the Presidency banks would be at most to transfer the demand for Council bills from the busy season to the slack season; it will mean a falling-off in the demand in the busy season and a larger demand in the slack season.

4343. If it had that result would you regard it as advantageous to the Secretary of State?—It would not be quite advantageous, because the average rate at which the Secretary of State can sell the bills and transfers will be somewhat reduced. In the busy season, if the banks wanted the money in India quickly and readily owing to a stringency in the local markets, they probably would take a large amount of telegraphic transfers at a high rate; whereas if they got a temporary loan at that particular stage and had to repay it by remitting funds later on in the year, then they will probably take only bills and not transfers. The effect, therefore, would be a reduction in the average rate at which the Secretary of State can sell bills and transfers on India. On the other hand, it is possible that this loss will be largely counterbalanced by the profit which the Government of India would make from the interest on the loans which it issued to the Presidency banks; so that it is an experiment that seems worth trying at any rate, inasmuch as, on the whole, there might not be any ultimate loss to Indian revenues.

4344. You see no practical objection on the part of the Indian Government to these loans?—No. It may result in the Government of India having to retain a larger proportion of the surplus balances in India than it now does; but I do not think that that would result in any real inconvenience.

4345. You are not afraid that if Council bills were not sold in the time of pressure, the Secretary of State would be unable to sell enough in the slack months to meet his requirements?—Personally, I do not share the apprehension, because I think the balance of trade must be settled somehow or other, and that the import of money, either by means of Council bills or by means of gold must satisfy the balance of trade taken over a series of years.

4346. Assuming that such loans were to be sanctioned, for what months of the year would they be required?—When the Committee of the Bengal Chamber of Commerce approached the Government of India on the subject on the last occasion, which was in 1899, they said they wanted the loans between January and April.

4347. Would you lend to anybody besides the Presidency banks, assuming that such loans were to be recommended and sanctioned?—I think for the present I would confine the experiment to lending to the Presidency banks, because, after all, the Presidency banks stand more or less in the position of Government banks, and it is only proper that Government should deal with, or through, them.

4348. I presume you would take securities from them for the amount of the loan?—Yes, I would.

I may mention that there is an arrangement under which we can lend money to the Presidency banks at times of stringency at the bank's discount rate. As a matter of fact, we have made such loans on several occasions in the past, but there has been no demand on us for such loans in the last five or six years, and it is possible that there is really no necessity for such loans nowadays.

4349. On the other hand, I think it has been suggested to us that the fact that the Government of India have only made those loans at the bank rate, deprives the banks of all inducement to take advantage of the offer, because the banks could only lend money at the same rate at which they borrowed it, and would get no reward for their trouble, and therefore they did not like to apply to the Government for the money. Do you think there is force in that?—Yes, of course there would be some force in it. If the bank did not get any reward for the trouble they took in the lending of the money, it would act as a deterrent from its taking such loans.

4350. At what rate do you think the Government of India should lend, if it lent at all? Should it lend at something below the bank rate?—There is no use in lending at the bank rate if no one will take the money at the bank rate; so that if the Government of India really wants to give larger assistance to trade, and trade requires the assistance, I think it would be desirable to lend it at some fraction below the bank rate, so as to leave the bank, which does the business, some margin of profit.

4351. What sort of security ought the Government of India to require, do you think—its own paper?—I think that is what it actually requires as a matter of practice; and to start with, I do not think we should go the length of taking other securities.

4352. Not even the best independent securities, Port Trusts, for instance?—Of course we might make an exception in the case of Port Trust securities, because they are in fact as good as the securities of the Government of India.

4353. Supposing the Government of India had decided to make such loans, and had been able to do so for three or four years, then let us suppose that from one circumstance or another their balances had shrunk, and in the fifth year they were unable to give the accommodation; I think you have already said that one of the reasons which had deterred the Government from doing it in the past was the fear that that would have a rather disastrous effect upon trade?—That is so.

4354. Do you think that view is shared by the Indian commercial community? I ask you the question because I think the witnesses who have come before us have said they did not think there would be much difficulty arising from that cause?—I think, in the past, members of the commercial community in India have themselves admitted this difficulty; and possibly to meet that argument the better plan may be not to lend out money from the Treasury balances, but to have some sort of elastic paper currency.

4355. I think we will come back to that later?—After all, it is not really the function of Government to lend money for the benefit of trade in India.

4356. As I understand it, the criticism directed against the Government of India is that as a tax-collector it bottles up a great deal of money just at the time of the year when the stringency in the money market is greatest; that it does not immediately require that money for its own use; and that it would be of great assistance to the money market to have that balance freed at that time?—The stringency in the money market could be easily met also by an elastic paper currency, and of the two alternatives an elastic paper currency would be a better solution of the difficulty than lending money from the Government balances.

4357. If assistance is to be given by the Government to trade, would you prefer that that assistance should be in the form of some rearrangement of the management of the Paper Currency Reserve rather than in the form of loans from the Treasury balances?—Yes.

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4358. At the same time, I gather from what you said earlier, the Government of India has been actuated by this desire to serve trade in closing the treasuries and handing over the balances to the banks?—Quite so; in fact the Government of India tries to do all that it can be reasonably expected to do; and as a matter of fact I believe it leaves larger balances nowadays even at the head offices of the Presidency banks than it used to do.

4359. It does not therefore seek to keep its balances at the head offices down to the fixed minimum?—No, it never does so.

4360. Does it keep as little as it can in the reserve treasuries, and put as much as it can in the banks?—No, it cannot be said that it does that either. The arrangement is that it allows its balance at a Presidency bank to mount up to a certain figure, and if it exceeds that figure, which is about a crore in the case of the Bank of Bengal and a smaller amount in the case of the other banks, then it transfers the surplus from the bank to the reserve treasury; but then on occasion it would even allow its balance in the Presidency banks to go above that limit.

4361. When it leaves the money with the bank it receives no interest, does it?—No, nothing.

4362. But the money is available through the bank, or a portion of it, for trade purposes?—Quite so.

4363. When it transfers it to the Treasury, of course the Government of India equally earns nothing upon it?—Quite so.

4364. But it is not available for the purposes of trade?—That is so.

4365. Would you give me briefly the reasons for the establishment of the reserve treasuries?—I think the reason was that there was some trouble which arose in 1874 and 11 years previously owing to the Government keeping all its surplus balances at the head offices of the Presidency banks. In 1863 Government could not get from the Bank of Bengal the money which it wanted to meet certain necessary and emergent payments, and the same thing occurred in connection with the Bank of Bombay in 1874. In the latter case Government wanted only about 35 lakhs, to meet emergent expenditure in connection with operations undertaken to relieve distress expected from scarcity in Bengal. The demand evoked a protest from the bank that the withdrawal would probably result in a panic and dislocation of business in the money market. The last-named incident was what actually led the Government of India to introduce the system of reserve treasuries.

4366. Do you think the danger of such a state of things recurring is great at the present time?—I cannot say that the danger has passed away. In 1898, when the banks approached the Government of India on the subject of the use of Government balances in aid of banking resources in India, the bank rate had gone up to something like 12 per cent., and possibly, but for the institution of the reserve treasuries, the state of affairs which took place in 1874 might have repeated itself in 1898.

4367. On the other hand, would it be fair to assume that, if the Government had lent more money to the banks, the bank rate never would have gone to 12 per cent?—It is very probable that that result would have been obtained; but *per contra* it might have been that if there were no reserve treasuries, the banks would have used Government money to carry on the ordinary business of trade, which ought to be financed by them from their own capital, and that they would have found it very difficult to surrender the money if and when it was required by Government. I may mention that 1898 was a period of great stringency with the Government of India also so far as the balances went, and if the Government of India, having lent its surplus balances to the Presidency banks, had wanted to withdraw them, we would probably have had a repetition of the experience of 1874.

4368. Therefore, to obtain perfect security you think it is essential that the system of the reserve treasuries should be maintained?—I think so.

4369. I suppose it is the case that some inconvenience is involved to the Indian money market in consequence of the establishment of that system?—It is so. Possibly it results in the bank rate rising rather high in the busy season, because so much money is withdrawn from the market; but it is not the business of Government to provide money for the purpose of trade, and it ought only to place so much at the disposal of trade as it conveniently can. If the placing of all its balances at the disposal of trade results in inconvenience to it, I think it would be perfectly justified in having a separate reserve and not making any portion of that money available for trade purposes.

4370. I think everyone would agree with you in that statement. The criticism, as I say, is not that the Government neglects its business because it does not help trade, but that the Government, by withdrawing more money than is needed for its own particular requirements at a busy portion of the year, actively hinders trade. I rather gather that you say that may be so to some extent, but it is done as little as is possible?—That is so.

4371. And that to go further might endanger security?—Yes.

4372. Suppose the Government of India were willing to lend money, what amount do you think in a normal busy season would the market take up?—I think one of the members of the deputation from the Committee of the Bengal Chamber of Commerce which waited on the Government of India in 1898 said that the amount needed to relieve stringency in the money market would not be large and would be about one million. That, of course, is a question to which different people would give different answers; but if we are to judge in any way from the demand which is made for telegraphic transfers in December or January, the amount may be a pretty large figure. Another of the members stated that the demand for such assistance would be reduced when India had a stable exchange; and if that was correct, then the demand at the present day ought to be less than even one million.

4373. I think it follows, from what you have said, that you are clearly of opinion that it would be impossible simply to abolish all the reserve treasuries and transfer all the Government balances to the Presidency banks?—Yes, that is my opinion.

4374. You have, I think, already told me that you would not recommend under any circumstances, in the first instance, loans to anybody except the Presidency banks?—Quite so.

4375. In these circumstances, is it a fair inference from what you have said, that you do not think the Government of India could have used to advantage in India any part of the balances recently held in London?—Yes. If the trade could not have taken more than a million, of course it follows that the Government of India could not have used advantageously any considerable portion of the surplus balances in India.

4376. You have already spoken of the possible effect of the sale of Council bills on any such loans made in India; the fear of adversely affecting the sale of Council bills has, I think, been one of the principal reasons for not doing it, has it not?—Quite so.

4377. But on the whole you are not very much impressed with the danger?—That is the position.

4378. In regard to the balances in England, they also have been very large for the last few years, have they not?—Yes.

4379. That, I think, has been mainly due to the large surplus receipts from Council bills?—Quite so.

4380. And those have been due to the considerable surpluses which have accrued in each of these years above the budget estimates?—Partly that, and partly to the lapses in the grants that were made for the railway capital expenditure.

4381. Why has there been so much under-expenditure there?—I think it is due partly to some difficulty in obtaining stores from England, and partly to more time being taken than was anticipated in preparing and sanctioning proper plans and estimates, so that there was some delay in commencing the works.

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4382. Has expenditure been affected at all by the difficulty of getting labour in India?—No; I do not think that has affected it to any degree. There may have been one or two cases, but I do not think they have materially affected the spending of the money.

4383. Generally speaking, could you carry out an even larger railway programme than that which has been provided for, without meeting with any labour troubles?—I am afraid I am not competent to answer that question, but this much I can say, that in 1912–3 the railways were able to spend practically the whole of the capital grant, which amounted to over 10 millions. That indicates that there were no labour troubles. I may also mention that a good portion of the money which is allotted for railway capital expenditure goes to meet the requirements of open lines, mainly, that is, to meet the cost of additional rolling stock, and here labour questions do not really come in.

4384. Unless they are English labour questions, or European ones?—That is so.

4385. I think the balances in London have been increased by borrowings on the part of the Secretary of State?—There have been some anticipatory borrowings.

4386. In those cases, does the Secretary of State act on the advice of the Indian Government?—No. What happens is this: The budget programme of borrowings is fixed some time about the end of the preceding year, and the Government of India and the Secretary of State settle between themselves what amount of loan will be raised in England and in India respectively; after that stage it is not usual for the Secretary of State to consult the Government about the amount of the sterling loan.

4387. In that case the consultation between the Secretary of State and the Government of India as to the amount of borrowing to be done takes place before the opening of the financial year?—Quite so.

4388. In the review which they make, do they look further ahead than the coming financial year, or do they confine themselves to one year?—As regards the definite programme of borrowings, they simply look forward to the coming year.

4389. And in agreement it is settled that so much will need to be borrowed in the course of that year?—Quite so.

4390. They arrive at that figure on the basis of the budget estimates, I suppose?—Yes, that is so.

4391. If in the course of the year revenue comes in more favourably than had been anticipated, is that fact communicated to the Secretary of State?—Yes. He gets the Comptroller-General's monthly statement of the treasury transactions in India, which shows exactly how the revenue is coming in.

4392. Does the Secretary of State, having fixed before the beginning of the year, after consultation with the Government of India, the amount which he has to borrow in London, again consult the Government of India before actually issuing a loan?—No, he does not.

4393. Might it not be the case that in a good year if he did so consult the Government of India they would be able to say that the revenue was coming in so well that the loan which they had contemplated as necessary before the year began was now proved to be unnecessary?—Quite so; particularly if there was any apprehension that the loan would not be obtainable at a favourable rate, I am quite sure that the Government of India would advise the Secretary of State of that.

4394. Do you think there might therefore be some advantage in more frequent communication between the Secretary of State and the Government of India before the Secretary of State actually issues any portion of the loans agreed upon?—I think so.

4395. (Sir Robert Chalmers.) Is it quite certain that these steps are not taken already?—The Secretary of State does not now consult the Government of India before actually floating a loan in the English money market.

4396. But there would be communications, I gather from a previous answer of yours, that would pass from the Government of India to the Secretary of State, not necessarily official utterances, but demi-

or semi-official utterances, explaining the position, and the way the revenue was coming in, and so supplementing previous information that had gone forward?—That is so. The Secretary of State is now informed how the revenue is coming in; but there is no consultation between the Secretary of State and the Government of India as to whether a sterling loan should actually be raised or not just at the time when the Secretary of State issues the loan in the English market.

4397. As you say, the Government of India does supply supplementary information if and when it accrues in India?—Yes, it supplies information, but it never supplies any advice in the matter.

4398. (Chairman.) It is not merely the total amount of borrowing, as I understand, but the proportion of the borrowing in India and in London which is settled in anticipation at the beginning of the year?—The actual amounts are settled as part of the budget programme.

4399. Might it not sometimes happen that as the year went on, the Government of India would see the possibility of raising on favourable terms in India a larger proportion of their total needs than they had at first thought possible?—That contingency might arise. Under existing arrangements, the Government of India tries to raise in India as much as it is possible to get out of the market on reasonable terms.

4400. Latterly, the rupee loans in India have been very successful?—That is so.

4401. Do you think there is much possibility or probability of an extension of borrowing in India in the course of the next few years?—The expert opinion on that matter is that it will not be possible to borrow larger sums than what we actually take from the market without further reducing the market price of rupee paper.

4402. The last two rupee loans in India I think have been issued at a better price than the sterling loans in London?—Yes.

4403. But you do not think that the better prices would have been maintained if the Government had sought to raise a larger proportion in India?—I think that that is the opinion held by bankers in India. The people we usually consult before raising our loans have given us that advice.

4404. I think you said just now that it was the policy of the Indian Government to raise as much as they could in India on satisfactory terms?—Yes, that is so.

4405. The object being to restrict as far as possible the creation of new debt in England?—Yes, to restrict the growth of the sterling borrowings.

4406. These borrowings are, I think, entirely for productive capital expenditure?—They are mostly for that purpose. Of course, in recent years we are raising sums for the construction of Delhi.

4407. Putting the creation of the new capital at Delhi out of account, the money has been almost entirely raised for railways or irrigation works?—Quite so.

4408. Do you happen to know whether the Government of India have considered whether it would be advisable to try to encourage private enterprise to do more of this work, in order that so they might lessen their own capital responsibilities?—I am afraid I could not answer that question, as I have no definite knowledge on the point. My recollection is that they afford all reasonable facilities to encourage private enterprise. At the same time, the railways constitute a very valuable asset to the Government of India, and it is possible that when questions of handing over the State railways to private companies have arisen they have not favoured the idea.

4409. I understand it would not come within your official responsibility to advise upon that point?—No, it would not.

4410. Now I should like to ask you to tell me as briefly as you can, how you set to work in India to prepare an Indian Budget?—We prepare some sort of rough forecast in November just after the autumn monsoon has been fairly established. For this purpose we obtain from the Civil Account officers their estimates of the revenue and expenditure for the current

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[Continued.]

year. We also obtain from the accounts officers who maintain the accounts of the important Imperial departments, *e.g.*, railways, military services, posts and telegraphs, &c., their estimates of revenue and expenditure. We examine these various figures, and we settle what we consider to be the preliminary revised estimates for the current year. From those figures, after making due allowance for the normal growth of revenue as well as of expenditure, we prepare a rough forecast for the following year. This forecast gives us in normal years a certain amount of revenue surplus, and then we discuss to what purposes this surplus is to be devoted, whether we should reduce taxation, or whether we should spend it in meeting needs for the improvement of various branches of administration, *e.g.*, education, sanitation, and things of that sort, or whether it should be applied in both directions. Then we submit our proposals for dealing with the surplus to the Secretary of State, who passes orders on them. That constitutes the first stage of our budget work.

4411. At about what time of the year would these sketch proposals reach the Secretary of State?—Usually about the beginning of January. At the same time we prepare the programme of capital expenditure. We know from the rough forecast of the revenue account what portion of the revenue surplus we can allocate to capital expenditure. We also prepare a rough forecast of the amounts that we can borrow in India and in England—of course, the latter figure is settled in consultation with the Secretary of State. We then commence the next stage of our budget work. About the beginning of January we get the regular budget estimates from the provincial governments. There are in India nine provincial governments which have got certain financial powers. Of course, these powers are more or less restricted by rules which have been laid down by the Government of India and the Secretary of State, but the provincial governments have got some amount of freedom in spending the revenue which is placed at their disposal. They prepare their budget estimates, both of revenue and of the expenditure that they propose to incur from it. Nowadays they have to consult their legislative councils as regards the distribution of their surplus money, but in January it is not possible for them to do so. What they do is this: In sending up to the Government of India the first edition of their budget they put in a lump sum, so many lakhs, the distribution of which they will decide later on after consulting their respective councils. We get these budgets, and our main duty in connection with them is, firstly, to examine the estimates under certain heads of revenue. The revenue under some of the heads—land revenue, excise in some provinces, stamps, and income tax—is shared between the Government of India and the provincial governments, so that the Government of India has got an interest in the proper estimating of revenue under these heads. The Government of India is, moreover, ultimately responsible for seeing that the provincial governments keep their expenditure within the resources at their disposal. It must therefore check any tendency on the part of a provincial government to over-estimate its revenue so as to get a larger spending grant for the following year than it ought to. After the estimates of revenue have been checked, the Government of India simply prescribes the limit up to which the local government can incur expenditure in the following year. That finishes the examination of the provincial estimates in the first stage.

4412. Suppose that the expenditure by a particular provincial government sanctioned by the Government of India proves to be in excess of the revenue, how is the deficit met?—Each of the provincial governments is required to maintain what is called a minimum balance below which it can not ordinarily reduce its balance; so that if in any bad year the revenue falls short of the budget estimate and the expenditure cannot be reduced below the budget grant, the deficit is temporarily met by drawing on the provincial balance. As a matter of fact, the provincial government may for the time being have a larger balance than the minimum, and then it may not have to draw upon

the minimum balance; but if it was working about the neighbourhood of its minimum balance, it may have to use temporarily a portion, or the whole, of its minimum balance, or even to take a loan from the Government of India. In that case, the Government of India would insist on the provincial government making up its minimum balance at the earliest possible opportunity.

4413. Are those balances of the provincial governments kept in the provincial government treasuries, or in the central government treasuries, or in banks?—There are no provincial government treasuries as distinguished from those of the Imperial Government. These provincial balances are more or less of the nature of credits, and the Government of India has the disposal of all the money. It manages the treasuries, but it keeps an account showing the amount which each provincial government has got to its credit.

4414. So that in considering what amount of money is at any time locked up in the Government balances, the Government balances about which you were speaking earlier are inclusive?—Quite so. At the moment there are about 10 crores of provincial balances included in the balances of the Government of India.

4415. Now, will you resume your account of the making of the budget?—When we have finished our examination of the first edition of the provincial budgets, we communicate to the provincial governments the figures of the budget estimates for revenue and expenditure as passed by us, and we tell them that they can distribute the total sum that we have allotted as their expenditure grant for the following year among the different heads of account in consultation with their councils. After we have finished with the estimates of the provincial governments, we examine the estimates of the wholly Imperial revenue and expenditure. The main items are, firstly, the military services. Of these a detailed estimate is prepared by our Military Finance Branch, in consultation with the Military Accountant-General and the Army authorities, *viz.*, the Commander-in-Chief and his staff. At the end of December, we have already decided, in connection with the preliminary budget forecast, what sum of money we can allot to meet military expenditure in the following year. If we find that the total of the detailed budget exceeds that limit owing to some special causes, we may have to raise that allotment in January or February if we find it possible to do so. Secondly, there are the estimates of the smaller commercial departments, the Post Office and Telegraphs. The Post Office estimates do not generally give much trouble, because the expenditure is usually kept well within the revenue, and the work of the department generally results in a profit. In the case of the Telegraphs, the expenditure has in recent years been higher than the revenue, mainly owing to the need for the establishment of radio stations, and we have to go into these estimates carefully, and allot as much money as we conveniently can for the efficient maintenance of the service. Then comes the most important Imperial department, the Railway Department. There, it is very difficult to make any correct estimate, owing to the magnitude of the transactions and their liability to respond to the agricultural prospects and trade conditions of India. Still, we make the best estimate we can with reference to the advice of the administrative authorities. After we have settled the estimate of revenue, we decide how much money is to be allotted towards the working expenses of the railways. We have arrived at some sort of preliminary conclusion on that point also in December when preparing our budget forecast; but since then the detailed demands of the railway administration have come in, and we may have to alter our preliminary figures with reference to these demands and our ability to allot a larger sum towards the working expenses of the railways. Lastly, there are some other heads under which revenue and expenditure are wholly Imperial. One of these is opium. The estimate of opium revenue in recent years has presented great difficulty. The Government of India, as a matter of policy, decided that they would only budget for what they call the

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surplus standard* of revenue in each year, and would postpone the consideration of the disposal of any accrued surplus from this source until later on in the year, in December and January. Other important Imperial heads are salt, customs, mint, and the charges of the central administration and of the survey of India and other similar scientific departments. These are also examined about the end of January. We also get, about the second week of January, the estimates of the India Office, which show the amount of revenue and expenditure, the amount of capital expenditure, the capital liabilities in connection with the discharge of debt which must be met in the following year, and other receipts and disbursements outside the revenue account. When these various estimates have been settled we compile, about the beginning of February, the total figures of Imperial revenue and expenditure and of provincial revenue and expenditure for the whole of India, and then we again examine the ways and means position. We know what the Imperial surplus will be, and we know whether the provincial governments will draw anything from the balances which they have got on deposit with the Government of India, or whether these balances are likely to be increased in the course of the ensuing year. We also know what amount we are going to spend on capital expenditure, on railways, irrigation works, &c., in the following year. Then, again, we have got another set of transactions called the deposit, advance, and remittance transactions. In India the practice is for the local boards, the Mofussil municipalities and other similar bodies to bank with the Government of India and to deposit their moneys at the Government treasuries, from which they draw such sums as may be required from time to time. It is also the practice of the Government of India to issue loans to cultivators in times of famine, and for land improvement and certain other purposes in normal years, as well as loans to municipalities and other public bodies in certain circumstances, and to the native States to meet administrative needs and famine requirements. Estimates for all these various items of outlay, and the receipts in connection therewith, have to be prepared by the Government of India in consultation with the Comptroller-General. When we have got together all the estimates of capital, deposit, advance, and remittance transactions, we know exactly what sum will be required to meet the capital liabilities of all sorts in the ensuing year. We then prepare, also in the first week of February, a compilation of the ways and means position. I may here mention that at the time when we are settling the budget estimates for the following year for the various items of revenue and expenditure, and of the receipts and disbursements outside the revenue account, we also settle the corresponding probable actuals for the current year, which are technically called the revised estimates, so as to arrive at the probable opening cash balance in the budget forecast of ways and means. In this connection we depend mainly on the advice of our account officers and of the Comptroller-General. One main point on which we ask the help of the latter is this: The important Imperial departments, viz., the railways and the military services, draw money from the treasuries by cheques to meet their expenditure, and they also pay the bulk of their receipts into these treasuries. So we can always as regards the current year check the total net military expenditure, as well as the net railway revenue and capital expenditure, from the Comptroller-General's estimates of the transactions of these departments with his treasuries. The second compilation, both of revenue and expenditure and of the ways and means position which I have referred to, is the first regular budget compilation, the previous compilation in December being only a forecast. If we find that this compilation indicates any material variation in the revenue surplus as compared with the forecast, we either curtail the budget programme already settled or devise means for spending the additional surplus. Then we go to the Secretary of State about the beginning of February with any

alterations which we may consider necessary in our earlier proposals regarding both the revenue surplus and the ways and means programme.

4416. Is it then that the estimates are finally settled?—No, they are not final even then. About the first week of February we get the provincial estimates back from the provincial governments. They inform us of any important corrections which they think are necessary in the revenue heads; and if the result of these corrections in any province is a large deterioration in provincial revenues the local government must curtail its total expenditure grant accordingly. If, on the other hand, the corrections result in an improvement, it is open to the local government to ask for an addition to its expenditure grant for the following year. We go through these provincial estimates again, and finally settle the estimates of revenue as well as the provincial grants for expenditure. The same process is repeated as regards the Imperial items of revenue and expenditure. In some cases, particularly the railways, there have been very big variations at this stage from the earlier estimates. Then about the middle of February we finally make up our estimates. They are then presented to the Imperial Legislative Council in the form of the Financial Statement. That represents the financial proposals of the Government of India for the following year, but it is not the final budget.

4417. That, I take it, is only settled by the vote of the Imperial Legislative Council?—What happens is this: Any member of the Council can move a resolution asking the Government of India to make changes in taxation or to allot money to some definite object for which no provision has been made in the budget, or he may ask the Government of India to increase or reduce the provision under any particular head. Even if that resolution is carried, the Government of India is not bound to accept it—it may or it may not do so.

4418. (Mr. Gillan.) It takes the form of a recommendation to the Government of India, does it not?—That is it.

4419. (Chairman.) In the main, as I understand, the budget may be said to be settled in the month of February?—That is so, except as regards important variations. After the Council have discussed the Financial Statement and have had an opportunity of placing their recommendations in respect of it before the Government of India, the latter go through the estimates again, but at that stage they make only important alterations, i.e., only such corrections as are likely to affect materially their calculations about the revenue surplus or about ways and means; and then about the end of March they finally present the estimates to the Council. At that stage the Council cannot make recommendations in respect of the estimates.

4420. At what point would the Government of India in conjunction with the Secretary of State have to make a decision as to whether they would propose an increase or a decrease of taxation?—That would be at each of these stages. The first proposal is submitted to the Secretary of State about the beginning of January.

4421. When would the final decision be taken?—The final decision would be taken about the middle of February.

4422. The official year begins in April?—On the 1st April.

4423. The accuracy, or the realisation of the budget forecast depends, I think you have said, mainly upon the condition of agriculture?—Upon the condition both of agriculture and of trade.

4424. Trade and the railways being themselves very largely dependent on the harvest?—That is so.

4425. All these estimates have to be made at a time of the year when the Government cannot possibly forecast whether the harvest would be a normal or an abnormal one?—Quite so; we cannot know anything about the position.

4426. I presume, therefore, that they budget for what you may call a normal harvest?—That is exactly so.

* See in this connection H.C. 155 of 1911, p. 4.

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[Continued.]

4427. Do you know whether the Government of India have ever considered whether they could not make their forecast with much more accuracy and more satisfaction to themselves if they altered the date of the financial year?—So far as I can recollect, the question has not been examined in recent times. I should think the main point was that they followed the practice in England, and having done so they have never given a serious thought to altering it.

4428. Of course there is always inconvenience at the moment of change in a matter of that kind; but setting that aside, and setting aside for the moment any objections that might be raised in England, do you think it would be an advantage to the Government of India to alter the date?—I must say I have not thought about it.

4429. Other things being equal, it would enable you to estimate with greater accuracy, would it not?—Yes, but even if we altered the date and made the year end on the 31st December, the result would be that in January we would not know exactly how the accounts of the preceding year stood. In any case we will certainly not be able to forecast the course of the ensuing monsoon much better than we do now. The only advantage will be this, that we will know more definitely than at present how we stood as regards the past year. I do not think the change of the financial year so as to make it terminate on 31st December will in any way help the Government of India in forecasting the course of the monsoon in the following year.

4430. I was wondering whether you could not postpone the beginning of the financial year to a date at which you would have some knowledge of the monsoon—suppose we take the end of October?—Such a change would probably enable us to frame a better estimate than we can now. We have got two monsoons, the autumn monsoon and the winter monsoon, and we would not be able wholly to meet the difficulty, but still, it would be better than the present position.

4431. The large balances of which I have spoken, which have accrued in recent years both in India and in London, I understand from you, and I think we have had it from another witness, include sums which are already allocated and which are placed at the disposal of the provincial governments?—Quite so.

4432. They are not what you may call free money within the control of the Government of India at the time when it shows them in their balances, and while therefore they are a credit to the Government of India there is a corresponding debit?—The actual money is in the hands of the Government of India, but it involves on them a liability to supply the provincial governments with any sums which the latter may require, out of the amounts standing to their credit, to meet provincial expenditure which has received proper sanction. A good portion of the Government of India's balance consists of similar items.

4433. Do you think it would tend to avoid misconception, if, in publishing the balances you eliminated those sums which had already been promised, though not actually spent, if, in fact, you carried them to a suspense account and showed them in a suspense account separate from the free balances of the Government of India?—They are actually shown in a suspense account, but when we state our cash balance we show the actual amount that is held in the treasuries. As it is, apart from this balance which has been promised to the provincial governments, there are considerable sums which really represent the balances of local boards and municipalities.

4434. I noted that you said that also. The general effect of that, as it seems to me, is to make the casual or careless observer think that the free balances of the Indian Government are very much higher than they really are?—The published cash balances are certainly not free balances. They represent the money which the Government of India holds in its treasuries. It may be that a portion of it represents savings banks deposits, while another portion of it represents the balances of provincial governments, and a third portion represents the balances of municipalities. It consists of the aggregate money which the Government of India has got under its control in its treasuries.

4435. It is the gross balance?—Yes.

4436. Some of our witnesses, I think—and I might even say for myself, as a member of the Commission, that I have been a little puzzled—have confused those gross balances of the Government of India with the net balance of the British Government at the Bank of England; they are clearly quite different things?—Quite so.

4437. Would it not be worth while in any statement in which those balances appear, at least to append some note to show what was a free balance, and what was already allocated to specific purposes?—That amounts to preparing a statement of assets and liabilities. In fact, Sir Edward Law once prepared it and published it in one of his financial statements. If it is of any use, it could be prepared without much trouble, but all the necessary information can be obtained from the Finance and Revenue Accounts if it is wanted.

4438. I want to go back for a moment now to the question of the rupee loans. In the first place, what is the total amount of rupee loans outstanding held in India and in London respectively?—I could give you the figure; it is published in an annual return of the Indian Commercial Intelligence Department: I quote the following passage, "Of the rupee debt it is estimated that, including Rs. 137·5 millions held in London, Rs. 728·6 millions were held by Europeans at the end of 1910, and Rs. 652·4 millions by Indians, the holdings by Indians being 47 per cent. of the whole debt. It should be noted, however, that the invested currency reserve is included in the sum held by Europeans."*

4439. Have you any later figures than those?—No, I have not. They indicate that 73 crores were held by Europeans at the end of 1910, and 65 crores by Indians. I could get later figures out if required.

4440. Of the portion held by Indians, roughly speaking, by what classes of the population is it held—do men of small means take any share in those loans?—The bulk is held in what may be termed big holdings, i.e., by rich men and men employed in commerce.

4441. I think you said that it was the policy of the Indian Government to raise as large a sum as possible in rupee loans?—Yes, that is so.

4442. I am not sure that I asked you, but at any rate I will ask you again in case I did not, what is their reason for so doing?—It is firstly a matter of policy. They consider it is politically good for the country that as much of the public debt as is possible should be held by the people of the country. In the next place, another reason is that the increase in the rupee borrowings tends to reduce the foreign debt, and consequently the home charges.

* Part IV.A of Statistics of British India, 1910-1: Calcutta Government Press.

The witness withdrew.

At the India Office, Whitehall, S.W.

ELEVENTH DAY.

Friday, July 4, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.

Lord KILBRACKEN, G.C.B.

Sir ROBERT CHALMERS, K.C.B.

Sir ERNEST CABLE.

Sir SHAPURJI BURJORJI BROACHA.

Sir JAMES BEGGIE.

Mr. ROBERT WOODBURN GILLAN, C.S.I.

Mr. HENRY NEVILLE GLADSTONE.

Mr. JOHN MAYNARD KEYNES.

Mr. BASIL P. BLACKETT (*Secretary*).

Mr. BHUPENDRA NATH MITRA, C.I.E., recalled and further examined.

4443. (*Sir Ernest Cable*.) You said that the Budget Estimates were based on what is called the normal harvest. Could you define what a normal harvest means? Is it based on an average of yield?—That is so; that is to say, we assume that the rainfall would be moderate and not scanty or plentiful, that the crops would produce what you would call an ordinary yield, and that the trade conditions would be normal throughout the year.

4444. (*Mr. Gladstone*.) I should like to ask you a few questions about the working of the district treasuries. Are there any recent official reports showing the actual daily and weekly transactions?—No, I am afraid there are none.

4445. Could you give us a statement showing the actual balances on different fixed dates at specific treasuries?—No, not without getting the figures from India.

4446. You referred yesterday, I think, to the transfer of surplus funds to the currency chest?—Yes.

4447. Can you tell me how often that may be done in a year?—It may be done at the surplus treasuries almost every month. In fact, at times, when the revenue flows in in large quantities, it may have to be done weekly.

4448. Would a return of the receipts be sent to the Accountant-General every week?—It is sent once every month ordinarily, but, when the revenue collections are heavy, the Accountant-General often calls for a weekly or fortnightly return from the surplus treasuries.

4449. Then he takes action based on the return which he receives?—Quite so.

4450. So that there would not be much delay in transferring any surplus money to the currency chest?—No, there is not usually.

4451. I think you rather indicated that the substitution of a branch bank for a district treasury involved an increase in the minimum Government balance?—For the time it does. So long as the arrangement regarding a minimum guarantee holds good, it naturally involves some increase in the minimum balance.

4452. Would not the saving in establishment charges more than counterbalance the cost of such additional balance?—I have not made any actual calculation, but I am doubtful, because I do not think there is any material saving in establishment charges. At these places Government has still got to maintain what is known as the accountant's department. The bank simply takes over the actual function of receiving and keeping the money and of making the payments. But anybody who has got to make a payment must go to the Treasury, and there we must maintain the proper establishment to give him a chalan or authority to hand over the money to the branch bank. Similarly, as regards the payment, the Treasury officer issues some sort of a cheque or payment order on the branch bank, after satisfying himself that the payment is in order, and that the party who claims the money is

entitled to it; then the branch bank makes the payment. So Government saves only a part of the Treasury establishment, not the whole of it.

4453. You would, I suppose, acknowledge that a branch bank ought to be able to conduct the business more economically by being able to combine banking business with Treasury business?—*Prima facie*, it ought to be so, but the difficulty, I believe, is that at these places the need for banking facilities is not very great, and that is why the bank, when it opens a new branch bank and gets the transfer of Government business, insists on some sort of minimum balance for a certain number of years. It is possible that after this period is over the guaranteed minimum balance will be reduced, or it may be possible to dispense with the guaranteed minimum.

4454. Do you not think that on balance it would be advisable for the Government to hold out inducements to the bank to establish these branches?—For that very reason I think it does so. Otherwise I do not think it would ever agree to maintain a minimum guaranteed balance.

4455. I should like to ask you one question on the subject of permanent loans. In England various securities are issued by the India Office to meet the requirements of the money market—short term, fixed dates, bearer and floating bonds. Would not there be a demand for securities of this kind in India?—It is possible that there may be a demand, but then the question is whether it is any advantage to the Government to get this loan. It is very probable that we will get the money at what is known as the slack season in India, but that at the beginning of the busy season, which is more or less our tight season also, we will be called upon to return the money which has been lent to us for a temporary period; and it may not be quite convenient to the Government of India to pay back the money just at that time.

4456. But suppose the bearer or floater bonds were issued with a currency of five or ten years there would be very little fluctuation in price, and these securities would be extremely convenient for borrowing, whether from the Government or from the banks, and would supply a popular want?—Quite so. That would give the Government some additional capital for the time being. But there are objections on principle to raising money by means of these temporary debts. For example, if temporary debt has got a currency of five years and at the end of the five years, when the time comes for repaying it, and there is, let us suppose, a famine in India, Government may not find it possible to repay the money without raising a permanent debt on less favourable terms than it would have got if it had raised the money by permanent debt at the time when it floated its temporary debt.

4457. Quite so; those conditions are met in London, and they might be met there, by bills for a year in the case of an exceptional time, or something of that sort?—My impression is that the India Office them-

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selves do not quite favour the idea of raising money for long periods by means of temporary loans. The policy is to raise temporary debt in times of pressure and stringency and then to substitute for this temporary debt a permanent debt as soon as market conditions make it possible to do so on reasonable terms.

4458. My suggestion is that these securities would be extremely convenient for the purpose of loans, say from the Government itself, because they would be redeemable at an early date, they would not vary in price, they would be good security for the Government, and they would be popular with bankers and others to be used for that purpose?—I admit that there would be some advantages, but then there may be countervailing disadvantages, and the disadvantages may be greater than the advantages.

4459. There are one or two questions I should like to ask you on the Budget year. The yearly forecasts are now made in December-January, I understand?—That is so.

4460. Of course, in December-January nothing whatever can be known about the monsoon—about the following season; but if the forecast were made in July-August the general course of the monsoon would be pretty well known?—Of the autumn monsoon, no doubt.

4461. You use the expression “the autumn monsoon”; that is the June-July monsoon?—Yes, that is so.

4462. That is the really important monsoon, taking India generally?—Quite true, but not in all parts of India. For example, a failure of the winter rains would largely affect say the wheat crop in the Punjab, and possibly also in the United Provinces.

4463. That would not be known in December-January, would it; you might have favourable weather later on which would assure the wheat crop?—Quite so, but then in January, or at least about the beginning of February, we have a pretty fair idea how the winter rains will turn out.

4464. But still, the wheat crop in the Punjab and the North-West is not of similar importance to the general rice crop throughout India and Burma, which depends upon the June-July monsoon?—I do not quite accept that statement as regards the Burma rice crop. I am not sure that it absolutely depends on the July rainfall.

4465. (Mr. Gillan.) May I ask a question upon that? You are not suggesting, are you, that a failure of the winter rains is of anything like the same importance as a failure of the regular monsoon?—No, not quite.

4466. Not quite?—No.

4467. Is it anywhere in the same latitude, so to speak?—I think so; in fact, I think if there is a failure of the winter rains there is a considerable effect both on the revenue and on the economic conditions of the country.

4468. (Mr. Gladstone.) Assuming, as I do, that the June-July monsoon is the really important monsoon, it would be, would it not, a great advantage to Government to make their forecast in July-August rather than December-January?—Yes, there would be some advantage; that is quite true.

4469. Then you indicated that three or four months were occupied in preparing the figures for the Budget. Would it be necessary to have so long a time? Could not that be compressed into a couple of months?—I am afraid that it would be impossible, having regard to the fact that the estimates of the various Provincial Governments have to be incorporated in the Budget of the Government of India, and to the present procedure with regard to provincial Budgets. The provincial Budget has got to be considered in some form or other by the Legislative Councils of the provinces. Previously, I think, we used to finish the Budget in about a month, or a month and a half, but we had to lengthen the period after the constitution of these enlarged councils so as to give them some time to discuss the estimates.

4470. But probably if the Government of India considered it of importance to compress the time it might be managed?—I am not sure about that; in

fact, I doubt if it could be managed without curtailing the facilities now enjoyed by the Legislative Councils of discussing the Budget.

4471. If the forecast were made in July it would be possible, would it not, to close the financial year on the 30th September?—Yes, quite so.

4472. And that date, I understand, would coincide with the revised dates which have been recently settled by the Government for railway half-years and years?—Yes.

4473. You are aware that they have lately been changed?—Yes. Of course, the railway year now ends on the 31st March, the same as the financial year; but then, as all the railways make up accounts half-yearly, the change to the 30th September would not really affect them.

4474. (Mr. Keynes.) Would there be any technical difficulties in the way of this proposal of changing the financial year to an October-to-September year? Would that date be, for any reason, less convenient than the present date from the purely office point of view?—No, scarcely that, but then I think there may be objections from the administrative point of view. It might mean that the various local governments and subordinate officers would have to be tied down to some amount of office work at a time of year which they probably devote to touring. But I am not sure of this.

4475. (Mr. Gillan.) From that point of view it is a better time, is it not, than in the cold weather?—Quite so. It is in the cold weather that they go touring. But, if the Budget of the Government of India is to be finally settled in September, the district officers will have to prepare their estimates some time in March or even February.

4476. (Mr. Keynes.) There was some question raised yesterday about the supplementary information, which you supplied to the India Office as to how revenue was coming in in the course of the year, for their guidance in raising loans. You said, I think, that monthly returns of the Comptroller-General were forwarded?—That is so.

4477. What sort of document is that? Is it one from which it is easy for a person who is not actually in India to ascertain what the ultimate receipts of revenue are likely to be?—Of course, it is so difficult to make any safe forecast with reference to the actuals of a month or even of two or three months, and particularly if the India Office have to float their loan, as they did last year, in May. What actually happens is this: The Comptroller-General, immediately the Budget estimates have been settled, distributes the Budget estimates both of revenue and of expenditure over the twelve months of the year. Then at the end of every month he issues a printed statement comparing the actual revenue receipts and the actual expenditure with the distributed Budget, and that shows whether the revenue and expenditure are actually showing an improvement over the distributed figures. The India Office can, however, always find out from these returns whether the actual closing balance of the previous year was materially higher than the amount entered in the Budget Estimates. About that there can be no doubt, and if that balance shows any large improvement I think there would be no difficulty in their judging whether it is necessary to raise the full amount of the loan if the market is unfavourable to them.

4478. But this is simply a monthly routine document from which they can draw their own conclusions?—Quite so.

4479. There is no process by which the Financial Member or the Financial Secretary in India informs the Secretary of State from time to time as to what is known as to the likelihood of the estimate being realised?—No, that is the very point which I mentioned yesterday. They are not asked for any advice on the point. The India Office gets these routine papers, and they are more or less in a position to judge for themselves. They have never asked for the opinion of the Government of India in this particular matter.

4480. If the opinion of the Government of India was asked for they could probably give the India Office

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[Continued.]

something more valuable and more definite than this routine monthly document?—Very probably.

4481. In estimating the heads of revenue I suppose amongst the most important, and also amongst the most doubtful are railways and the land revenue?—Yes, and Customs also plays an important part.

4482. In estimating these many months before you can have any accurate information as to how the seasons will turn out, do you assume something rather below the average of previous years, or on what principle do you do it?—As regards land revenue there is not much difficulty. We can find out what the demand is, and if there is no famine or failure of the monsoon or other special causes, which would necessitate any considerable suspensions or remissions of revenue, then we can make a fairly correct estimate of the land revenue.

4483. Is the estimate which you publish in March, then, an estimate based on the hypothesis that there will be no important remissions?—Quite so. We only allow for ordinary remissions, not for any special remissions necessitated by famine or other abnormal circumstances.

4484. It is rather, therefore, a maximum estimate than a minimum estimate?—For land revenue it is generally so. At the same time there are certain tracts where the land revenue assessment depends upon the area cropped, so that if the crops are better than the average in those tracts the land revenue returns will be higher than the normal figures.

4485. In those tracts you know the actual average figures of the previous years?—Not exactly the actual average figures; we know at the time what the cropped area under assessment is, and the estimates are based with reference to that area.

4486. The area which has been sown?—Which has been settled, so to speak.

4487. I mean in these districts of variable crop area you cannot know, when you are making the estimates, what the area will be in the following year. In estimating that, do you take the average which was cropped in previous years or not?—We do not actually take the average of previous years. We allow for some growth over that average. There is always some normal growth over that area, and this normal growth is allowed for. In fact, if crops are plentiful the land revenue becomes considerably increased; on the other hand, if, owing to floods or failure of the rains or other abnormal causes the crops do not come up to the average, then the land revenue falls off.

4488. I should be right, therefore, in concluding that on the whole, apart from some small adjustments, in your estimates of land revenue you do not make any considerable allowance for the contingency of a bad harvest?—Quite so.

4489. They are rather towards the maximum than towards the minimum?—They are based, as I said, on the normal harvest. You cannot say it is the maximum, because if the harvest is a really good one, in some places you may get a larger return from the land revenue than if it is a normal harvest.

4490. But that seems to differ from the impression I got from your former remarks, that it was based on an actual fixed figure. Is this normal figure a computed one or an average?—That figure is based on the actual figure of the previous years after we have eliminated from it all abnormal collections of arrears, and things of that sort. Then we make allowance for the normal growth of revenue, not for any abnormal growth or for any abnormal remissions or suspensions, and that is how we make our estimate.

(Chairman.) It is very much like the British Budget estimate.

4491. (Mr. Keynes.) Then with regard to the other important item, in the case of railways have you any information as to how the estimating is done? I suppose for the most part you accept the figures of the railway authorities?—As a matter of fact we do not; we make very large corrections in their figures with reference to the actuals of the past year; but, of course, here also we try our best to eliminate all abnormal factors, and the corrections we accordingly

have to make are often very considerable; in fact, in some years they amount to something like two crores.

4492. And in the case of Customs?—In the case of Customs we mostly base our Budget Estimate on the receipts in the ten months or the eleven months of the current year. Then we make allowances for any abnormal factors; for example, in recent years the imports of silver have been abnormally high, and in forming our Budget Estimate we had to allow for the fact that these high imports might not be continued in the following year. Similarly we make allowance for any other large abnormal factor which may have affected the revenue in the current year, such as the Burma rice exports, which are affected by a variety of causes, and therefore we take the Budget Estimate at what seems to us to be a normal figure.

4493. I had formed a general impression that the estimates were based on so cautious a principle that there would be a surplus unless the year was a rather poor one, and a large surplus if it was a good one. You would not agree with that, I understand, from what you have said just now?—It is not wholly correct, for example, there was a year in recent times when the actual result, owing to famine, was a large deficit as against a small surplus which the Budget had anticipated.

4494. Has there been any tendency for the Budget Estimates to be more cautious in quite recent years than they were say eight or ten years ago?—No, I do not think so.

4495. You put down the recent large surpluses entirely to unforeseeable causes and to exceptionally good seasons?—Quite so; it is partly due to opium and partly to the very great improvement in the economic conditions of the country.

4496. (Sir Robert Chalmers.) The general prosperity of India?—Yes, quite so.

4497. (Mr. Gillan.) As regards opium, it was due to a deliberate policy which excluded from the Budget Estimates a certain portion of the opium revenue in advance?—Yes; I think I mentioned that to the Chairman yesterday.

4498. (Mr. Keynes.) I have one other point, not connected with the Estimates. In the million which you allowed in the minimum balance as lodged at the Presidency banks did you include the amount lodged at the branches or only that at the head offices?—No, that is only at the head offices. It is $4\frac{1}{2}$ millions for the district treasuries, including the branch banks, and 1 million for the head offices of the Presidency banks; that makes $5\frac{1}{2}$ millions. Then there is $2\frac{1}{2}$ millions for the reserve treasuries.

4499. I should like a little more information as to the precise relation between the Government and the Presidency banks at the branch offices. I suppose the amounts lodged there on Government account are very variable in amount—I mean at the individual offices?—At individual offices I do not think they are ordinarily much higher than what we keep at a district treasury. There may be a little more in cases where we have to give a guarantee under the new system, but otherwise I do not think that they are materially higher than what Government would keep at a district treasury.

4500. I did not mean to inquire so much as to their absolute size, but rather as to whether they are very fluctuating? Are they much higher at some times of the year than at others?—If figures are required I think I could put in figures.

4501. You have not any impression on your mind as to whether they are fluctuating?—I have no definite recollection, but I think I have the figures readily available.*

4502. I am asking these questions because I want to know whether it is necessary for the Presidency banks to keep at the branch offices a very large proportion of the Government deposits in cash. If the Government deposits are held at call, and are of a very fluctuating character, evidently they would have

* The figures are being obtained from India, and will be printed as an appendix to the Final Report.

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to hold large cash deposits there, and I wanted to know how far that was the case?—My impression is that ordinarily there is no material fluctuation in the balances kept at the branches of the Presidency banks.

4503. Even speaking of the individual offices, not merely of the aggregate?—Quite so.

4504. (*Sir Shapurji Broacha.*) Of course, you are telling us the views of the Government of India, and not your own personal views?—No. The views which I have given in several cases have been my personal views, and I think that is distinctly understood. They do not commit the Government of India in any way.

4505. What would be the exact minimum amount that the Treasury requires for carrying on the business of the country?—The district treasuries?

4506. All put together?—It is roughly $5\frac{1}{2}$ millions, without allowing for any margin or reserve, but if you allow for a reasonable margin and a small reserve it is 8 millions, the figure I mentioned yesterday.

4507. That 8 millions does not include the balances belonging to the provinces or the municipalities?—It includes everything; it is the amount which is held at any particular date in the Government treasuries.

4508. Then we are told that 18 crores or 19 crores is the minimum balance required, or 12,000,000*l.* sterling. You do not agree with that?—No. As I tried to explain yesterday, that sum represents the minimum working balance which the Government of India wants at the end of March. In India there is a period of high balances and a period of low balances. That amount of 12 millions is required at the end of March, so that we may have a balance of at least $5\frac{1}{2}$ millions in December, which is the month of our low balances.

4509. Five and a half millions is the required minimum in December, and 8 millions for working balances, which leaves a little margin for the Government. Then anything after 8 millions could be lent. Of course, the Government may require money for other purposes sometimes all of a sudden—we know these contingencies happen in every country—but for the purposes of the Government 8 millions, or 12 crores, would be sufficient, keeping the margin of about 2 millions, because $5\frac{1}{2}$ millions is the absolute minimum?—I would not say that quite as regards the end of the year, March 31, because apart from the 300 district treasuries we have got a large number of sub-treasuries, about 1,500, and the land revenue mostly comes in, in the first instance, in those sub-treasuries. A good portion of the land revenue comes in in March, so that there may not be time to bring in all these revenue collections at the district treasuries by the end of the month, and the minimum balance in the district treasuries on March 31 must necessarily be higher than $4\frac{1}{2}$ millions.

4510. I understand all that, but I accept your version, that so long as the Government of India have 8 millions in the treasuries they have a fair amount of working margin for contingencies, because the absolute minimum is $5\frac{1}{2}$ millions. I accept your version as regards all these difficulties, and so on, but you require 8 millions in the treasuries always to keep a fair working margin?—I do not see how that follows. We want 8 millions in December.

4511. Five-and-a-half millions is the minimum which you require, and 8 millions would leave a working margin; 8 millions you will always have in the treasuries, there is no doubt of that. That will leave a little working margin, but when there is 12 millions there would be 4 millions in excess, do you agree with that?—Yes. But that 12 millions is required at a particular date, and the 8 millions at a different date.

4512. Quite right, but I am speaking of that particular date when you have more than 8 millions. That is a surplus which the Government at that time does not require, except in case of extreme contingencies?—I am not even prepared to say that, because what actually happens is this: The Secretary of State's drawings are heaviest between December and March, and, even if we restrict our remittances to the amount required to finance the home Treasury, his

drawings will still be heaviest at that period, so that towards the end of the year we really want a higher balance in India.

4513. Never mind. I accept your version, as I said. You give us a version that $5\frac{1}{2}$ millions is the minimum, and 8 millions would leave a little margin for small contingencies, in order to keep money easy?—Anything over that would be a surplus for the time.

4514. (*Mr. Gillan.*) May I explain one thing, Mr. Chairman? I think what the witness means is that these 8 millions is the balance that is required about December with reference to the conditions of December, but that perhaps a slightly higher working balance would be required, say, in March, because of the different conditions of March. (*To the witness.*) Is that what you mean?—A slightly higher balance. That is exactly so.

4515. (*Sir Shapurji Broacha.*) You say slightly higher. It is 8 millions and $12\frac{1}{2}$ or 12 millions, which is 50 per cent. higher, that is not slightly higher?—That may be so.

4516. For instance, if you have 12 millions you can certainly easily lend for the purpose of trade 2 millions?—The point is this: We could in fact possibly lend temporarily if the trade would promise to pay it back to us say in the next month or so.

4517. There is no doubt of the trade promising to pay back at the time when the loan terminates, there is no doubt of that; that contingency you need not calculate upon. If Government promises that 2 millions taken in January would be repaid in April certainly the Indian market is such that the Presidency banks would be able to pay with absolute certainty, you can take that, and on that contingency I think the money could be lent?—Yes; in fact I have already said there would be no practical difficulty on the part of the Government of India in lending the money.

4518. You have referred to what the Government would risk by lending the money. I think prosperity of trade means prosperity of revenue?—Did I say the Government would get any advantage? What I have said is this, that the Government would lay itself open to certain risks, and the Government ought to avoid those risks as far as possible. I think that is all I said.

4519. But if the Government has not helped the trade up to now the Government would be working on the wrong policy?—I do not think it is a fact that they have deliberately not helped trade.

4520. Never mind, I do not say that they did it deliberately, but that was their judgment, and it was a wrong judgment. What do you mean by saying that the Secretary of State sells, or keeps selling, Council bills for the settlement of trade until the balances are exhausted? You said that. I think the Secretary of State has nothing to do with the settling of the balance of trade, except to get money which he wants here?—I am not sure that I used the exact expression. What I think I said was this, that it is the practice of the Secretary of State to sell bills and transfers in excess of what he actually requires to finance the home Treasury, and that he does so to meet the demand on the part of banks for remittances to India. It is not the function of the Secretary of State to do so, but then it is beneficial both to the Government and trade, and for that reason he does it.

4521. These 300 district treasuries often have surplus money which they can always transfer from one treasury to the other; sometimes one treasury has got more money than it requires, and they may have to meet demands at some other place, for instance, Bombay, and Bombay wants a transfer. Of course, the Government does that transfer?—It is often done.

4522. So these 300 district treasuries give facilities for trade by giving transfers?—Yes, quite so.

4523. Are there not 800 sub-treasuries?—I could not give you the exact figure, but I should think there are nearer 1,500 than 800.

4524. And they do the sort of business which a branch of a bank would do where there is no branch of a bank—transfer money from one place to another?—Some of the branches have got agencies where they have not got branches.

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4525. That is what I said, and these branches are allowed to use the minimum balance which they have agreed between them, the Presidency banks and the Government; they are allowed to make what use they like of the minimum balance?—Yes, they can.

4526. What is the total Government balances in these branches?—I suppose we have every week a statement of the Government balances which there are in the branches?—I could give you the figures. I have the figures, and I could give them if they are required.

4527. They would appear in their statement every week?—I do not know.

4528. They do appear?—In the statement published by the bank?

4529. They estimate the Government balances, so much in the Presidency towns and so much in the branches?—Yes, the figures are given in the statements published by the banks themselves.

4530. For instance, at the end of September we know the conditions of the monsoon, and, except for the small winter crop, we know the condition of the crop to be exported. The condition of the different crops—jute, rice, indigo, and all those crops—is known at the end of September; at least, we know the condition of the monsoon at the end of September?—We know at least the effect of the principal monsoon.

4531. I am talking of the principal monsoon. Up to September the monsoon throughout the whole country is known?—Yes.

4532. And if you are framing your Budget in June to the end of September you know the condition of the railway earnings, you know the condition of the jute, cotton, and rice crops; all those conditions are known to you?—Yes.

4533. The wheat crop is not absolutely dependent on rains; for instance, in Gujerat you do not want rain at all; the dew does the business. The dew, of course, helps in growing the wheat in Gujerat?—Yes, but then in some parts of the country—

4534. I know that is not so in several provinces, in the United Provinces and in the Punjab, but then, of course, there to a good extent the canals help the wheat crop?—That is so in irrigated areas.

4535. So that at the end of September, except for a very small amount of the quantity to be exported, everything would be known?—That is so.

4536. Then if they were to make their Budget from October 1 they could forecast the character of the whole of the year and commence again next October, because on October 1 they will know what the next year will be like. Do you think in that month the heat would prevent the Government knowing these things?—The Budget would have to be prepared some time in July or August, but the heat would not affect in any way the Government of India, or any local government.

4537. Of course, the loans could be raised in the monsoon, independent of public works?—Yes, but there is one difficulty. The Government would have no idea at that time of the trade conditions. The busy season would be from December to February or March, and the present advantage is that the Government has definite information as to how the trade conditions in the busy season are going to turn out. If the financial year is changed as proposed, it will certainly have to budget for normal trade conditions.

4538. I beg your pardon. At the end of September we make up our mind what the export crop will be, and I think if we can judge, the Government can judge with equal certainty?—Is the produce an absolute index to the trade? Does it not depend upon the demand from other countries for the export of the produce? I doubt if they would be able to make a fair estimate of, say, the cotton movements at any time in July and August.

4539. In July and August you cannot, because if the September rain fails half the crop perishes?—Yes.

4540. At the end of September you are certain of the rain; you do not want any more until November or December?—Yes, but then you would have to frame your Estimates somewhere in August, even if the year opens on October 1.

4541. Yes, but the progress of the monsoon goes on with the progress of the Budget-making, and if odds and ends are to be put in you can put them in at the end of September or the middle of September?—I am not sure of that. If the financial year is to begin on October 1 the Budget must be settled in September.

4542. I suppose your Budget makes provision for the normal growth even on the last season's revenue?—Yes, it does.

4543. Of course, you cannot provide for the failure of the monsoon or for the failure of other things, and you cannot calculate to a certainty the coming railway revenue of the year or the coming land revenue of the year in January or February?—That is correct.

4544. How do you make your calculations for the purchase of silver? For instance, you have 19 crores of silver now, and say at the end of August or September you are assured of your monsoon, how much silver do you think you ought to have for the busy season?—I think we have laid down that we want 18 crores to start with at the beginning of the busy season.

4545. (Mr. Gillan.) 24 crores, is it not?—Yes; there is the margin of 6 crores in the Gold Standard Reserve. By 18 crores I meant the stock in the Currency Reserve.

4546. (Sir Shapurji Broacha.) And you would have those 18 crores in the Currency Reserve during the busy season?—Yes.

4547. If it falls, you have to buy?—Quite so.

4548. (Sir James Begbie.) When a change of taxation is contemplated when you are preparing your Budget, is it a matter of discussion between the Government of India and the Secretary of State?—Yes, all changes of taxation require the sanction of the Secretary of State.

4549. Is it the procedure that the Government of India submits proposals to the Secretary of State?—Yes, quite so.

4550. The Secretary of State does not suggest any alterations himself?—On occasion he has done that, but generally with reference to the proposals of the Government of India. When the proposals of the Government of India come to him it is quite open to him to say: "You have got this amount of available revenue surplus to dispose of. Instead of disposing of it in the way you propose, please consider whether you should not adopt these other alternative methods." Thus, for example, supposing the Government of India proposed to reduce the Customs tariff so as to reduce their available surplus it would be quite open to the Secretary of State to say: "I do not agree with you about this particular matter. Please consider whether it would not be better to reduce the Salt duty, and not the Customs duty."

4551. The Secretary of State does not propose any alteration off his own bat?—No, it is not usual for him to do so. He has not got the necessary information before him.

4552. In the Budget Estimate for 1910-1 the amount of Council bills to be sold was put down as 15½ millions. Did that sum include any provision for capital expenditure?—Yes. What actually happens, as I explained yesterday, is this: The Government of India, in consultation with the Secretary of State, finds out how much money will be available for capital expenditure. Now that money may be obtained either from the revenue surplus or from loans.

4553. Loans in India?—Loans in India or in England. After the amount of the loans has been settled we settle the amount of the remittances from India to England. The Secretary of State estimates that he has got a certain amount of revenue expenditure to meet in England and that he has also got to meet a certain amount of capital expenditure. He then tells the Government of India: "To meet these disbursements I will raise a certain amount by means of loans in England; I have got a certain amount of surplus balance which will be used for that purpose also, but there remains this difference of 15 millions, or whatever it may be. You will have to send that

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"sum from India by means of Council bills, or, if "Council bills fail, by actual remittances in gold." So that the 15½ millions to which you are referring was intended to cover all the payments at the home Treasury, both revenue and capital, in that particular year.

4554. Can you say how much capital was included in that sum?—I could give the amount of capital expenditure in England in that particular year and the amount of capital receipts, but it would be impossible to say how much of this 15½ millions was actually earmarked for capital payments in England.

4555. It is not earmarked in advance?—No, there is no earmarking.

4556. In the case of the current year the amount put down for Council bills is about 21,650,000*l*. Can you say how much of that is intended for capital expenditure?—As I have already said, there is no earmarking as regards the Council bills or the remittances, but you can have a good idea of what portion of these Council bills is required for capital payments in England by working out the net capital expenditure in England in the year.

4557. You have told us about the advice that is sent every month, I think it is, to the Secretary of State, stating how much balance he may draw against?—Quite so.

4558. Does that mean that the whole of the surplus balances for the time being are specially held to meet Council bills?—Yes, they are placed at his disposal.

4559. (Mr. Gillan.) I think some of the evidence you gave suggested that there was a great difficulty about increasing the number of branches of Presidency banks without Government assistance?—Yes, I think that has been the experience in recent years.

4560. Do you know of any branch that has been started without Government assistance?—I do not think I could reply to that question definitely.

4561. Is it within your knowledge that the Bank of Madras have, as a matter of fact, started a number of what they call sub-agencies?—Yes, they have done so.

4562. And in their case no Government assistance was given, I think?—No.

4563. In reply to the Chairman yesterday on the question of lending money from Government balances in India, you mentioned certain objections. One was, I think, that money for which the Government might have a sudden demand would be locked up?—Yes.

4564. That objection would not apply very strongly, would it, to money which was lent out, say, in January or February and was repayable by April? What I mean is that in that period there is no sudden demand likely to come on the Government through any seasonal calamity?—No; but then there may be other calamities apart from seasonal ones.

4565. Will you mention them?—There may be a big operation on the frontier, or a big war.

4566. But the probability, we will say, of a sudden demand on the Government is less at that time of the year?—That is so.

4567. They can see their way more clearly at that period?—Yes, that is so.

4568. Another objection which you mentioned was in connection with Council bills?—Yes.

4569. You mentioned that it might reduce the amount available for Council bills?—That is so. That is the view which has been put forward at times.

4570. I think that is another point. For the time being it would actually reduce the amount available for Council bills?—Yes.

4571. Then, when the Secretary of State has drawn all that he wants to draw, there is normally an amount left in our balance over and above the minimum working balance at that time of the year, is there not?—Yes, quite so.

4572. Which would be available for loans?—Yes.

4573. As regards the amount of Council bills sold altogether, or the price at which they would be sold, your view, I take it, is that there would be a reduction in the busy season and an addition in the slack season?—Yes, that is so.

4574. If the result was slightly to reduce the price obtained in the busy season ought there not to be a corresponding betterment in the price in the slack season?—Yes, probably that is so; but on the whole there is likely to be a reduction in the average.

4575. That is what I wanted to get at. How do you work that out?—Because in the busy season, when there is a stringency of money in India, they take a larger amount of telegraphic transfers. If we offered loans from Government balances, when the time came for repayment they would import money into India by means of bills, and as the rate for the bills is naturally lower than the rate of transfers, there is thus a probability of the average rate for the year being lower.

4576. (Sir James Begbie.) But the bank will be paying interest on the loans in the meantime?—Yes; I think I mentioned that yesterday.

4577. (Mr. Gillan.) So that this effect would result from the substitution of bills, and as the rate for telegraphic transfers; that is what you mean?—Yes.

4578. (Mr. Gladstone.) And that would mean a difference of $\frac{1}{32}$ in the rupee in exchange?—Yes, that is the usual difference.

4579. (Mr. Gillan.) As regards the previous attitude of the Government upon the question of loans, it is the case, is it not, that in 1899 the Government of India did propose that loans should be given as a matter of system?—Yes; I think they made that proposal.

4580. And that proposal was negatived, as a matter of fact, by the Secretary of State on the ground that it would interfere with his Council bill operations?—Quite so.

4581. But it is also the case, is it not, that at that time the Government seem to have been thinking rather of an all-the-year-round loan, a more or less permanent loan?—I am not sure of that. No; I do not think it is correct. My recollection is that they distinctly stated that the loan would be given for three months; that was to be the maximum period of the temporary loan.

4582. (Sir James Begbie.) When was that?—That was 1899, I think.

4583. (Mr. Gillan.) I am not sure if I am right in thinking that you said yesterday that you would prefer loans to be given from currency?—I did not exactly say loans, but I said that the assistance to trade should be given from currency.

4584. You would prefer that method?—Quite so.

4585. But even if you were to give assistance from the Currency Reserve that does not dispose of this question of how you are to deal with the temporary surplus that you have in your Treasury balance from January to April, does it?—No, of course it does not.

4586. We have still to consider that question, have we not?—Yes. In connection with this I think I may mention one incident that I came across yesterday. It is possible, after all, that there may not be any demand from the banks for loans from Government balances in India. An instance, which goes to support this view, took place, I think, in 1907. The local branches of the Exchange banks approached the Government of India for loans from the balances in India, but the head offices of these banks said that they preferred using Council bills to taking such loans.

4587. There is one point I wanted to ask you with regard to the amount that is left with the Presidency banks. You said that the practice of the Government of India is to withdraw money from them when our balance with them exceeds a certain sum?—That is the ordinary practice.

4588. But it is recognised, is it not, that the banks may retain even a surplus above that sum on payment of interest?—Quite so, yes.

4589. That is recognised?—Yes, that is recognised.

4590. Have you ever known it to be done?—I know of no case in which actual interest has been charged, but I know of cases where a higher balance than the ordinary maximum has been left at a Presidency bank.

4591. That is so, but has a Presidency bank ever said to us when we were on the point of withdrawing

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our money, "Do not do it; leave it with us and let us "pay interest"?—No, never.

4592. You never knew them do that?—Not in recent years, no.

4593. (*Sir James Begbie.*) Has that intention of the Government been intimated to the Presidency banks, that they will leave the money if the banks will pay interest upon it?—Yes, I think they know it.

4594. (*Mr. Gillan.*) You were speaking yesterday about the Government of India advising the Secretary of State as to the flotation of loans at home. The fact remains, does it not, that generally these loans are floated at a period of the year when it will be very difficult to forecast what is going to happen, or to give the Secretary of State any advice on the point?—Yes, quite so. When the loans are floated in January or February there would be no use in giving the Secretary of State any advice.

4595. Or even when he borrows in April or May?—As I mentioned yesterday, when it comes to a question of borrowing, after the close of the financial year the actual state of the cash balance, as compared with the Budget estimate, will help to some extent at least in deciding whether it is necessary to raise a loan, or the full amount of the loan budgetted for, in an unfavourable market.

4596. I understand that, but even supposing your opening balance has turned out to be better than was put down in the Budget, would it be very safe at that early period of the financial year to base your action entirely on the increase in your opening balance without reference to the possible outcome of the monsoon, for instance?—Of course, if there is anything wrong with the monsoon the result will probably be the issue of a much larger loan; but in a case of that sort the India Office may prefer to have recourse to temporary loans.

4597. Then I think the Chairman in the same connection put to you a question about the possibility of increasing the loan raised in India in the course of the year?—Yes.

4598. During the year?—Yes.

4599. One point I wish to put to you in that connection is this: Is it not the case that when the Indian loan has been announced in the Budget the Presidency banks and all the people concerned make their arrangements on that basis?—Yes, that is so.

4600. With a view to that particular sum being raised about July or August?—Quite so.

4601. The Government of India have generally considered that it would not be very convenient to the banks or to others to make a sudden change in the amount announced?—Yes, that is so; in fact, it would affect the rate.

4602. And they probably would not make any change unless in view of some very special necessity?—Quite so; that is true.

4603. (*Sir Shapurji Broacha.*) May I ask one question? The Secretary of State could not refuse from April to December to sell bills at a lower rate than 1s. 4d. He has to spend money. I suppose the Secretary of State has to spend half the amount allotted to him between April and December or April and November?—It may be even more than half.

4604. So that if he does not sell bills at the market rate, and at a time when the banks could not make provision for their export season, I think he has to sell because of necessary expenditure here at less than 1s. 4d.?—Not always necessarily, because he has got some reserve under his control upon which he can fall back if the exchange is really unfavourable.

4605. By "unfavourable" I do not mean below the gold point; I mean if it is still at the gold point; and the gold point is not 1s. 4d.; it may be sometimes 1s. 3½d., or it may be sometimes 1s. 3¼d., and so on?—Yes.

4606. So the Secretary of State, in order to provide for his requirements, has to sell between April and December, or October or November, what he requires?—Quite so.

4607. And supposing he sticks out for 1s. 4½d. or 1s. 4¾d., or even 1s. 4d., and the monsoon does not turn out well, he may be left in the lurch?—Quite so.

4608. So as business people you have to provide as you go on?—Yes.

4609. And the Secretary of State is not wrong in selling for his requirements now at 1s. 3½d. or 1s. 3¼d.?—No.

4610. So those who criticise the Secretary of State's action do not take into consideration his requirements?—Criticise in what respect?

4611. Have you read Mr. Webb's book? He lays down laws?—I know.

4612. It would not be so if the Secretary of State were allowed to draw in anticipation of one year's requirements; then he could wait?—Yes, quite so.

4613. If he fails in getting his rate he has still money in hand?—Yes.

4614. You said that the Secretary of State did not want to lend in India because it would interfere with his exchange operations?—Quite so.

4615. Of course, I need not ask you: the Secretary of State was wrong in that one thing; the banks bring out money in India immediately to pay for their export bills, and it would make no difference whether the money is at 2 per cent. or 6 per cent. in India except for a very small amount; but, of course, that is a matter for discussion?—Yes.

4616. (*Lord Kilbracken.*) I think you said that the India Office was supplied with financial statistics from time to time by the Government of India as the financial year went on, but that the India Office did not invite and did not receive the comments of the Government of India on those statistics?—What I exactly said was that the India Office never asked for any comments.

4617. And did not you say or imply that they were not volunteered by the Government of India?—Exactly so, quite.

4618. You expressed the opinion that it would be advantageous if such comments were asked for and supplied?—Quite so.

4619. But I suppose we may assume that if the Government of India thought it advisable to comment on those statistics it would do so without hesitation, and would not wait to be invited?—The point is that it is well understood that so far as the loan operations in England go the Secretary of State is the final authority, and no advice on the part of the Government of India is required.

4620. What do you mean by "is required"?—is invited?—Yes, that is so.

4621. You mean it is not asked for?—Quite so.

4622. But you do not mean that it is not required in the sense of not being advantageous?—It is a matter wholly for the decision of the Secretary of State. The Secretary of State has never asked the Government of India for any advice in the matter, and the Government of India naturally has not considered it proper to give him advice of its own motion.

4623. I should have thought if the Government of India had an opinion they would volunteer it. I take it you are referring exclusively to official correspondence?—Yes, that is so.

4624. You are aware, no doubt, that there is a very full and free exchange of opinion and of views between the India Office and the Government of India by means of private and semi-private letters and telegrams?—Yes, quite so.

4625. Do you think that as a matter of fact the India Office is not at any given moment fully informed as to the views of the Government of India on the financial situation from week to week?—No, I do not think there is any such definite practice.

4626. You do not think that they are informed?—My impression is that the India Office are not actually informed about the financial position from week to week.

4627. You think that they are not sufficiently informed by means of official correspondence, with the addition of the private and semi-private correspondence which is, as we all know, always going on?—No, I do not think any advice or any definite information is furnished regularly from week to week by means of this private correspondence.

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4628. You are not aware of it, at any rate?—Quite so.

4629. You said also that the Secretary of State does not take the initiative in questions of taxation. You mean that he does not do it in an official despatch or telegram?—Quite so.

4630. But, as the Secretary of State is in constant correspondence privately with the Government of India is it not impossible to say, as regards any given proposal, whether it really originated in this country or in India?—Quite so. Of course, it would be impossible for me to say whether it is usual for the Secretary of State to write privately to the Viceroy asking him to consider a particular proposal.

4631. (Chairman.) I want to know now about the paper currency system and reserves. In the first place, as regards the paper currency system, it is rather a rigid system at present, is it not?—Yes, it is.

4632. Do you think it would be desirable at this stage to make it more elastic?—I think an experiment might very well be tried.

4633. Do you think it would be safe now to increase the fiduciary portion of the issues?—Yes, that could be done now without any inconvenience.

4634. Is there any figure in your mind by which you would think it safe to increase the fiduciary portion?—No, I have not got any particular figure in my mind.

4635. I mean the percentage of the whole?—I do not think there would be any difficulty if we kept about one-third of the net circulation in securities.

4636. What would you say to the suggestion that a part of that fiduciary portion of the reserve, instead of being placed in what we ordinarily mean by securities, should be used for assistance to trade?—I think that could very well be done. In fact, that was what I was coming to yesterday, viz., that, instead of making any regular arrangement of lending money to banks at times of stringency, we might have a more elastic paper currency.

4637. I think you did speak yesterday, and again to-day, of giving assistance to trade, if assistance was to be given, from paper currency rather than from the balances?—Yes.

4638. Was that what you had in your mind when you so spoke?—Quite so.

4639. As regards the Gold Standard Reserve, am I correct in saying that that exists solely for the support of exchange, or has it other objects?—That is its main function. It has also been held that, apart from its function of supporting exchange in times of difficulty, there is the other function of supplying rupees in exchange for gold when there is an abnormal demand for rupees.

4640. You regard it as part of the object of the Gold Standard Reserve to supply, not gold to India, but rupees to India?—Yes, in times of stringency, quite so.

4641. Would not that rather be the part played by the Currency Reserve?—Yes, that is the part which the Currency Reserve ordinarily plays, but in time of stringency, when the Currency Reserve may fail to satisfy the purpose, it is necessary to have some sort of special reserve, and it has always been held that it is the function of the Gold Standard Reserve to supply that special reserve.

4642. How does the Gold Standard Reserve supply that need?—We have what we call the rupee portion of the reserve in India, where we hold about four millions sterling, and in times of abnormal demand for rupees we have indented upon this reserve.

4643. Then the rupee portion of the Gold Standard Reserve which is kept in India exists merely for that purpose?—Quite so.

4644. I think that is a departure from the recommendations of the Fowler Committee?—Yes.

4645. In their recommendations it was contemplated that the Gold Standard Reserve should have no object except to maintain the exchange?—Yes, but then I think it follows as a consequence of that recommendation, that if there is a shortage of rupees in India the result will be that exchange cannot be maintained at the standard particular rate.

4646. What would happen if there was a shortage of rupees in India?—Rupees would be at a premium above the standard rate.

4647. So that in those cases you are using the Gold Standard Reserve not to maintain the exchange value of the rupee, but to prevent it from rising too high?—That is so.

4648. (Mr. Keynes.) May I interrupt? If there was a shortage of rupees would it not be necessary for the Government to withdraw their notification? At present there is a notification that rupees can be obtained in exchange for sovereigns?—Yes.

4649. If the Government had no more rupees left they would have to withdraw that notification, would they not?—Quite so, but then that would lead to a dislocation of trade and a large amount of trouble.

4650. I mean no premium could result unless that notification had been withdrawn?—That is quite true, but in the Mofussil if there is a shortage of rupees the result will be that there will be a premium on the rupees in circulation.

4651. (Chairman.) Have you known any cases where there has been a premium on the rupee?—I have known of cases where there has been very great difficulty owing to trade not getting the proper amount of rupees that it required; in fact, that is exactly what led to the establishment of this special holding of rupees in the Gold Standard Reserve.

4652. Assuming that a portion of the Gold Standard Reserve is to be devoted to that purpose, it follows, I think, that it must be kept in silver?—Yes, that is so.

4653. And that the proper place for that portion of it is in India?—Yes.

4654. Do you consider that the proper place for the rest of it is in London?—Yes, I do.

4655. Will you tell me very briefly why you say that the proper place is London?—Because the function of the gold portion is to prevent exchange from falling materially below the standard rate of 16*d*. Now if exchange falls below that rate, the main difficulty is that the Secretary of State will not be able to meet his sterling obligations. For that purpose it is essential that this reserve should be at a place where it could be readily available to him to meet these obligations.

4656. (Sir Robert Chalmers.) Not only his obligations, but also to maintain parity for trade in general?—That is so. In fact we maintain that by selling bills in India on London in exchange for rupees.

4657. And that might be regarded by some as even more important than the transactions of the Secretary of State?—That would undoubtedly be more important from the point of view of trade itself.

4658. And India generally?—Yes.

4659. (Chairman.) I think it has been suggested to us by some witness that one purpose of the Gold Standard Reserve is to supply gold to India. Do you agree with that?—Of course, at times of stringency the supply of gold in India itself also helps to maintain parity of exchange. If, for example, we have got a portion of the reserve in India and rupees are getting redundant, so far as the standard rate of exchange is concerned, then if we issue the gold freely the result is that it partly helps to raise the balance of trade in favour of India, because the gold so issued may either be exported from the country or it may tend to reduce the import of gold into the country; so that in either way it helps to raise the balance of trade in favour of India and it thus helps to improve or steady the rate of exchange. But then I think that this function of supplying gold in exchange for rupees or notes should be performed by the gold in the Currency Reserve so long as we have a large amount of gold in that reserve in India.

4660. Do you say that experience shows that gold issued to India in times of exchange difficulty does support the exchange?—I have an impression that it does so; that seems also to be the natural consequence.

4661. Take the case of 1907–8. I think about four and a half millions additional gold were issued, if I remember rightly, from the treasuries?—That is

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Possible. The crisis extended over portions of two financial years. My recollection is that in one of these years two millions were issued. Probably the remaining 2½ millions were issued in the other year.

4662. I think I am right in saying four and a half millions; I think there was evidence that only about a quarter of a million of that was exported?—Is that so? I had an idea that about two millions were exported, but I am not sure.

4663. This evidence was in a memorandum submitted to us by Mr. Abrahams; the statement relates to the events of 1907-8: "It will be seen that the 'sovereigns held in Government treasuries in reserve' in India decreased between September 1907 and September 1908 by 4,394,000*l.* of which 215,000*l.* represented light coin sent by the Government of India to the Secretary of State and the remainder, 4,179,000*l.*, issues to the public in India. The export 'on private account during the same period amounted to just about 250,000*l.*' (see paragraph 9*d* (b) of 'Appendix III., page 90). It would seem from that, as far as one can lean upon that experience, that gold in circulation in India or issued in India does not go to the support of exchange?—But then, even if the gold is absorbed it will reduce the demand for import of gold into the country, and in that way it would support exchange.

4664. Have you any view to express on the question of the opening of a mint in India?—I think myself that we ought to have a gold mint.

4665. Will you tell me why?—The main reason is that we ought to have some means of coining a gold coin in India.

4666. I must ask you why again?—Because I think that, for the time being, it would help us in the maintenance of the gold exchange standard to have a larger circulation of gold in India, and though it is true that we get our requirements by the import of sovereigns into the country, a gold mint in India would indicate to the public at large that Government was certainly earnest in its endeavour to foster gold circulation in the country. It would also attract to the mint the amount of gold produced in the country itself, and this amount would be turned into sovereigns there.

4667. Let me ask you first about the gold produced in the country. I think some years ago—I have not the exact year in my mind—the Government of India withdrew its proposal for the opening of a mint at that moment because they found that all the gold produced in the Indian mines was under contract of sale to London. Do you know whether that condition of things no longer exists?—No, I could not say anything definite on the point, but it seems to me that, once we open the mint, the contract is bound to be terminated, and we will get that gold in our mints.

4668. Is that necessarily so? I presume that the mines have heavy remittances to make to London; their shareholders are in London. May it not pay them to remit their gold direct to London and tender it here?—It may be so. But they could arrange for these remittances easily by tendering the gold in India and getting payment against it in England through banks.

4669. Would you propose to charge any seigniorage on gold coinage?—No, nothing. Of course, we should have to charge something for refining the gold, but nothing in the way of seigniorage.

4670. Is there any refinery in India now?—No, I do not think there is one.

4671. Do you think, apart from the gold produced in mines, much gold would be brought out of hoards in consequence of the opening of a mint?—It may not be immediately, but it is possible that at times of stringency during periods of famine, after the country has been saturated with gold, gold ornaments will come out from hoards and be sent to the mint for coinage.

4672. Is gold taking the place of silver in hoards, whether in actual bullion or ornaments?—There is no definite information on the point, but I think there are some indications pointing to the fact that gold is gradually displacing silver in circulation, and also, naturally, in hoards.

4673. In your opinion it is desirable to encourage that?—Yes, I think so; at least, at the present moment.

4674. Notes are playing a very large part in the circulation of India at the present time, are they not?—Yes.

4675. And an increasingly large part?—Yes.

4676. Do you not think that there is a good deal to be said for notes as the most convenient and cheapest form of currency?—Undoubtedly notes are better in this respect than an actual gold coin.

4677. Is that not a little in conflict with what you were saying just now, that you wanted to increase the amount of gold coin in circulation?—The point is this: India is still an undeveloped country. It is natural that a great portion of the masses should prefer metallic currency in place of paper currency, therefore, for the time being, it would be advantageous to have an actual gold currency in circulation to displace the silver currency, but later on, as the country develops, the note circulation will probably increase and displace the gold currency.

4678. As an ideal, then, you look forward to the supersession of metallic currency by notes as far as possible?—Quite so.

4679. But in the meantime you would prefer to see gold taking the place of a portion of the silver?—Quite so, because, in fact, such a substitution would reduce our currency difficulties. The less the amount of rupees we have in circulation, the smaller would be our liability at times of crisis when we may be called upon to support exchange.

4680. I want to know how exactly, in your opinion, the amount of rupees in circulation, provided they are not in excess of the demand for currency, affects exchange, or your difficulties in regard to exchange?—What happens is this: The amount of rupees in actual circulation at any time must be equal to the demand for the rupees themselves, but at times there may not be a demand for the total volume of rupees which has found its way into the hands of the public, exactly as happened in 1908, and some portion of the rupees are returned to our currency offices, and either gold is taken in exchange or these rupees are, so to say, sent out of the country by being put into our currency offices, and gold in London taken against the rupee payments in India. Now if we had a larger circulation of gold and a smaller circulation of rupees our difficulty at that stage would be considerably reduced, because then, in a crisis of that sort, the gold itself would go out of the country, or, on the other hand, there would be a smaller import of gold into the country for hoarding, arts and manufactures.

4681. If you had a large amount of gold in reserve would not that serve exactly the same purpose?—Yes, but the point is this: We will have to go on gradually increasing this reserve, because, as there is an increased demand for metallic currency we shall have to issue more rupees; we shall have to coin more rupees and issue them; and we shall have to increase the gold reserve to meet our liability in respect of these additional rupees. On the other hand, if we can reduce the demand on us for rupees and can meet it by an increased circulation of gold, of course the whole machinery will go on automatically.

4682. Supposing as long as trade is expanding, and the prosperity of India is increasing, the demand for rupees goes on increasing, and then comes a check, you do not suggest that the whole of the new rupees which have been put out in the course of the prosperous years would come back to the Treasury, do you?—No, not the whole of them necessarily, but probably a good portion. In fact, there will be a repetition of what actually happened in 1908.

4683. But even in 1908 a very small proportion of the issues which had been made came back?—That is so, but then the risk would be increased if we went on adding to the volume of the rupee currency.

4684. Do you think it has increased in proportion to the increase of the currency?—No, it cannot be quite proportionate, but still there would be some increase in the risk.

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4685. I suggest to you that as against those contingencies you must keep a gold reserve; and with that I think you agree?—Yes, that is so.

4686. I should say you must have gold in the first instance, and you must have that gold either in circulation or in the reserve or probably in both. But I would suggest to you that it is more economical and quite as useful to keep it in the reserve as to keep it in circulation?—Yes, that is so. But then, on the other hand, if we do that and go on adding to the rupee currency, it means that we increase our liability to convert the rupees into gold when the necessity for doing so arises. We can certainly meet that liability by keeping a large amount of gold in reserve, but, instead of taking all that responsibility on Government, I think the other plan of having a large amount of gold in circulation and making gold displace rupees would make the system more automatic, and reduce the responsibility of Government in the matter.

4687. Are you treating it as being in practice obligatory upon the Government of India to give gold for rupees whenever asked?—It is practically obligatory. Of course, in theory there is no obligation, but at the time of the last crisis I think the Government of India found that it was desirable to give out gold in exchange for rupees so long as it had got gold, and I think it is necessary to do so at times of panic so as to avoid creating any suspicion in the minds of the people about the currency policy of Government.

4688. Would you think, therefore, that the time had come for the Government of India to undertake an actual legal obligation to give gold for rupees?—I do not think it is necessary to go so far at present.

4689. (*Lord Faber.*) There is one question I should like to ask you. It is your opinion, I think, from what you have said, that India is using world's money when she uses gold in her circulation—money available for all purposes; but, when rupees are used, India is not using world's money. Do you agree with that?—Quite so.

4690. (*Chairman.*) What is the use of the gold in the Paper Currency Reserve in India?—Its main function is to supply gold to the public whenever they may demand it; that is to my mind its primary function. Of course, it is used for other purposes; a portion of it is nowadays held in England as a reserve from which the Secretary of State can purchase silver expeditiously at an emergency, or from which he can finance the home Treasury if there is any prolonged falling-off in the demand for Council bills at the specie point rate.

4691. It follows, I think, from what you said that you hold rupees in the Gold Standard Reserve in order to supply the public in India with rupees when they want them, and you hold gold in the Paper Currency Reserve in order to supply them with gold when they want it?—Not quite, because we have rupees in the Paper Currency Reserve which we issue to the public when they want rupees. The rupees in the Gold Standard Reserve constitute a second line of defence. They are a margin. In fact, the inflow and outflow of rupees to and from the Currency Reserve is more or less automatic, and it may happen, as it actually happened in the past, that at times of extreme stringency the rupees in the Currency Reserve may prove insufficient. Then we have a second line of defence, and we can make use of it.

4692. Have you ever considered whether it would be under those circumstances desirable to amalgamate the two reserves?—That would destroy the character of the special reserve. For, if we amalgamated the two reserves and kept the total sum in the Currency Reserve, it would be liable to fluctuations with reference to the ordinary exchange operations of the Currency Department, and it may so happen that at times the bulk of the rupees may be taken away, and there may not be a sufficient stock left to meet immediate demands. But if we keep a certain amount of rupees in a special reserve, then as soon as the rupees in the currency are more or less exhausted, and we start drawing on the silver in the gold reserve, it is an automatic indication

to the Government that it must coin rupees expeditiously.

4693. You mean that if they were working with only one reserve the facts which were passing under their eyes might escape their notice?—It is possible.

4694. But the fact that they have to go to the gold reserve for rupees is an alarm-signal?—Quite so; it is an automatic alarm-signal.

4695. Given the use, as you have explained it, of those two reserves, do you see any other reason than that for keeping them separate?—No, there is no other that I know of.

4696. Do you see any advantage in putting them together if it could be done?—Apart from the objection based on the advantage of having a special rupee reserve, I do not see any other objections to keeping them together.

4697. As regards the Gold Standard Reserve in London, a portion of it is in gold and a portion of it in securities. Have you any views as to the amount which ought to be kept in gold?—I think that a fairly large amount ought to be kept in gold. I believe the Secretary of State has recently agreed to hold five millions in liquid gold. Possibly that is a sufficient sum to start with, but my personal opinion is that it would be better to have a higher amount.

4698. Would you indicate any total for the Gold Standard Reserve as a whole or for the gold portion of it in particular?—As regards the Gold Standard Reserve as a whole, I think we ought to keep not less than 25 millions. When we have reached that limit of 25 millions, we might then review the whole position, and might consider whether a portion of the coinage profits might not be diverted for some other purpose. But until we had reached that point of 25 millions, which I think was clearly indicated as a necessary reserve by the experience of 1908, I do not think we ought to touch the further accumulations in the gold portion of the reserve.

4699. Do you mean to keep the whole 25 millions in actual gold?—No, that figure I mean to be the total amount of the reserve.

4700. As regards the actual gold, you think five millions hardly sufficient?—Hardly, I think. Probably 15 millions would be a suitable sum. I think during the last crisis we lost something like 18 millions, and we were lucky that the crisis did not synchronise with a very great stringency in the English money market itself, and a large fall in the price of sterling securities. If that had been so we should have been obliged to sell our sterling securities at a very great loss.

4701. Do you think it is fair to take what happened in 1907-8 as a measure of, shall I say, the greatest danger against which you can reasonably be called upon to provide?—That is the only experience that we have got to guide us, and for the time being I think we must depend upon it. We may have to alter our views on the subject when we are confronted with another crisis.

4702. It was put to us the other day by a witness, and I think you have just indicated that you agree, that it would have been far more serious in 1907-8 if what that witness called the storm centre had been in London instead of in New York?—I certainly agree with that view.

4703. Again, there was famine in India in 1907?—Yes, that is so.

4704. Was it a bad famine?—It was not a very bad famine.

4705. You could easily conceive of a worse famine?—Quite so.

4706. I think there was no war that year?—No.

4707. You might have circumstances, therefore, much more unfavourable to India than they were in 1907-8?—It is quite conceivable that it may be so.

4708. That would seem to imply that you should provide for something more than what was actually proved to be required in those years?—That is so.

4709. Have you ever had occasion to consider whether the Gold Standard Reserve should be brought under statutory regulation?—My personal opinion is

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that at the present moment at any rate it is better not to bring this reserve under statutory regulations.

4710. I think on one occasion, and on one occasion only, money has been diverted from the Gold Standard Reserve for expenditure in India?—Quite so.

4711. The Government of India I think did not approve of it?—That is so.

4712. And it has not been done since?—No.

4713. Do you wish to say anything on the question of a State or central bank for India?—No, I do not want to offer any opinion on the point unless any particular question is asked me.

4714. There is one other question I want to put to you. It refers to the coinage of gold in India. Supposing that were to be decided upon, have you any view as to what the coinage should be?—I certainly think the coinage should be the sovereign, the coin of international trade. If that is impracticable, then, of course, as a last resort I would fall back on a special coin for India.

4715. You are aware that if you want to coin a sovereign you have to have a special mint under the supervision of the British authorities?—Yes.

4716. And that it is a rather expensive proposal, therefore?—I would, nevertheless, go to the length of incurring that expenditure.

4717. (*Sir Robert Chalmers.*) As regards the tendering of gold at the assumed mint in India, that would turn to a very great extent on price, would it not?—Yes.

4718. As to whether it were cheaper and as to whether it fitted in with the arrangements of the mine-owners, with agents, as regards commission, and so forth; there would be all those questions?—Yes, quite so.

4719. But ultimately it would turn on price?—Yes.

4720. Taking price a little further into detail, if, following the Australian precedent, there were a mint charge in India, that would militate, through the price, against the arrival of gold at the Indian mint as compared with its coming to London, which is a free mint?—Quite so.

4721. (*Sir Ernest Cable.*) I think it would assist the Commission, in considering the question of increasing the elasticity of the note issue, if you could tell us how these notes are issued. Are they issued in large parcels to Mahájans and local bankers or do the people themselves come and take the notes in small quantities? Do you happen to know what the habits of the people are in that respect?—From the currency offices?

4722. Yes?—The issues are mostly in large parcels, and the paper currency which filters to the Mofussil mainly finds its way there through the banks.

4723. So that they are issued through the banks, really, and the native Mahájans, and so forth?—Yes.

4724. (*Mr. Keynes.*) Are there currency chests at all district treasuries?—There are currency chests at most of the surplus ones; I may say at all the surplus ones. The treasuries may be divided into three main classes. There are the deficit ones, i.e., those which do not collect enough revenue to pay the charges at that particular treasury; there are some which just sufficiently pay their way, and there are the surplus ones. There are currency chests at all the surplus treasuries; there are also currency chests at most of the deficit treasuries, particularly those which are located in out-of-the-way places, where it would be difficult to send remittances regularly month after month, and it is a convenient arrangement to send a big remittance at a certain period of the year, to keep the money in the currency chest, and to issue portions of it to the Treasury from time to time to meet requirements.

4725. Is that also true of sub-treasuries?—No, as regards sub-treasuries it is unusual to have currency chests.

4726. When a branch of a Presidency bank takes over some part of the work of a district treasury I suppose the currency chest remains untouched?—The Bank of Bengal usually maintains currency chests for Government at these places, but the Bank of Bombay has never undertaken this obligation, and at all the places where we have a branch of the Bank of Bombay

doing Government Treasury work the Government maintains a separate currency chest.

4727. When the bank maintains the currency chest does that simply mean it keeps it in its vaults, or does it mean more than that?—That is all it does.

4728. It merely safeguards the rupees?—Yes.

4729. It takes over no other function?—No.

4730. It does not actually issue notes against rupees?—No.

4731. It is merely the safeguarding of the rupees that it undertakes?—Yes.

4732. I understand that the Government economises over remittances to a very great extent by using the currency chests instead of sending balances backwards and forwards?—That is so.

4733. It releases money out of one currency chest and puts it into another?—Yes.

4734. When a Presidency bank takes over the Government balances are the facilities of the currency chests allowed to the Presidency bank?—I do not quite understand the question.

4735. I mean can a Presidency branch bank, in a place where there is a currency chest, cash notes out of its currency chest as freely as the Government would, and so remit by those means?—The ordinary currency chest does not actually cash notes. If the branch bank at such a place wants more coin it applies to the Accountant-General of the particular province, and he may or may not give the bank more coin from the currency chest. But the usual practice is that a branch bank is allowed to take over the coin in the currency chest at such a place on payment of a certain amount of premium—it is usually a small premium—to the Accountant-General.

4736. So that the branch bank which takes over the Government balances has not quite the same facilities of remittance as Government had, because it has not full control over the currency chest?—So far as the Government balances go, the facility is the same. If there is any surplus, the Accountant-General will ask the Presidency bank to make a transfer from the Government balance at its branch to the currency chest. Then again, if the Accountant-General finds that the Government balance at the branch bank is running short he will at once order a transfer from the currency chest to the Government account at the branch bank. Of course, the Presidency bank does not get the same facility so far as its private balance is concerned, but the Accountant-General always gives it the first choice of the accumulations in the currency chest at such places, charging it with a small premium. He also usually hands over to it the entire surplus Government balance free of charge, if it makes an opposite payment at some other bank or at its head office.

4737. About how much is the premium?—It varies between $\frac{1}{16}$ and $\frac{1}{8}$ per cent.

4738. If there were to be some system of a Central bank managing the note issue I suppose it might possibly be profitable for that bank to have branches where it is not now profitable, for this reason, that they would be able to use the currency system for remittances to the same full extent as the Government now use it?—Quite so. If it is practicable to have a State bank which will relieve Government of all its responsibilities as regards currency and banking, that sort of thing would be possible.

4739. I mean at present there is only a very partial economy effected when the branch bank takes over the Government balances, because there is a great deal of semi-banking work which still remains in Government hands?—Not exactly. The currency work certainly remains in the hands of Government, but not semi-banking work.

4740. No, the currency work remains in the hands of the Government?—Yes.

4741. Can you explain as fully as possible the extra-legal facilities which are given for the encashment of notes? I understand the public can actually demand encashment at the place of issue or at the Presidency town office, but that you give other facilities outside the law when it is convenient. Can you outline the nature of those facilities?—What happens is

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this: At the District Treasuries facilities are given for the encashment of currency notes so long as there is sufficient coin in the Treasury available for the purpose. Apart from this arrangement we have at certain important centres what is called a Currency Agency. We have one at Allahabad, we have several in the Punjab, we have one I think at Mandalay, and I believe we are about to open one at Delhi. These Currency Agencies issue notes, which usually are given a distinctive mark, for circulation among the public against a deposit of coin in that particular agency. The notes which are thus issued from the agency are freely encashed at that agency, other notes being also encashed so far as it is found possible to do so without any inconvenience. That is the other extra-legal facility.

4742. In practice are they nearly always able to do that or not?—I should say that the facility given is a substantial one. They are often able to cash the notes at the more important treasuries.

4743. I mean is it your impression that the public can place reasonable reliance on being able to cash them or not?—Yes, at almost all the important treasuries they can, I think, rely on getting a currency note cashed at the Treasury.

4744. Are currency notes ever cashed for the convenience of the public at sub-treasuries?—No. The nature of sub-treasuries is different. They are mostly collecting centres where the revenue is collected. A sub-treasury does not make any payment of its own motion. If the district treasury issues a sort of cheque on it to make a payment in any particular case it makes the payment from the revenue collected by it, but no cash is ever sent to a sub-treasury to meet any particular payments, and a sub-treasury cannot cash currency notes.

4745. But I suppose a sub-treasury has rupees in its chest which have got there from taxation?—Yes.

4746. Is there any reason why, when those rupees are in excess of its probable outgoings, it should not use them to cash notes?—We would have to maintain a larger establishment at the sub-treasury. We would practically have to convert the sub-treasury into a regular treasury.

4747. There is no other objection?—No, none.

4748. If that were done it would mean that there would be some sort of facility for encashment of notes at 1,500 places instead of 300?—Yes.

4749. Has it ever been considered whether that is practicable?—It has never been considered, for the reason that the sub-treasury is always looked upon as a centre for the collection of revenue. It has no other function, practically.

4750. Can you explain to me as to what sort of extra-legal facilities are given for the supply of gold?—There, again, it is the same thing. So long as a treasury has got a supply of gold it issues it freely to anybody who may want the gold. When there is a large supply of gold at the currency offices, the Comptroller-General and the Accountants-General usually keep the various treasuries where gold is in regular demand properly supplied with gold.

4751. They do send gold on purpose in order that it may be available in order to give the public extra-legal facilities?—Quite so, so long as they have a large stock of gold.

4752. Do they send rupees for the same purpose?—Yes, they have to.

4753. I mean they do not merely give the public extra-legal facilities when the stock of rupees has got very high; they do send rupees on purpose in order to give them extra-legal facilities?—The Government tries its best to meet the public demand for rupees, and it often concentrates rupees from various places where there is not any large demand for them to places where there is a large demand, but in such cases what usually happens is this: The banks or the big firms get hold of these rupees by the purchase of supply bills or transfers by paying a small premium to the Accountant-General.

4754. Were the extra-legal facilities for gold given with a view to getting more gold into circulation?—

Yes. That is so. When we have got a large amount of gold in our hands we try to give special facilities to get it into circulation.

4755. You deliberately send gold to places where you think it may be wanted in order that more gold may get into circulation?—Yes, that is so.

4756. (Mr. Gladstone.) You referred to the treasuries numbering 1,500. As a whole could you give us any idea of the proportion of the Government balances in those 1,500 treasuries as against the 300 district treasuries?—I am afraid I could not give you any.

4757. Roughly?—No, I could not.

4758. Would it be half?—I could not say.

4759. Perhaps you could get it?—Yes.

4760. (Chairman.) Will you be able to get the information here?—No. In fact, I tried to get it here, and failed. But if the information is wanted, I could certainly telegraph to India and get the information; I could get it, say, for one particular province.*

4760a. (Mr. Gillan.) But it must vary very much at different times of the year?—It must vary enormously.

4761. (Mr. Gladstone.) I mean an approximate proportion. This very convenient system of the currency chest which exists at the district treasuries does not apply to sub-treasuries, and the object of my question was to see whether that might not be extended?—Of course, the arrangement is that as soon as any large sum accumulates at a sub-treasury it is immediately withdrawn to the district treasury, and, except in months when a large amount of land revenue is collected, January, February, and March, very little actually remains in the sub-treasuries.

(Mr. Gillan.) I may say that these are little places twenty miles away from headquarters, and money is being brought in regularly once a week or so. It is not retained there.

4762. (Sir Shapurji Broacha.) I suppose Government tried to do its very best to push gold into circulation between 1900 and 1907?—Yes, they made an effort.

4763. Until the gold circulation or the gold sovereign went down to a discount at one time?—I have no information on that point.

4764. Government tried its best to put gold into circulation for seven years until the exchange crisis came?—Yes.

4765. I suppose it was an experiment to see how far the pushing of gold would help exchange during a time of crisis, but the crisis was not helped by gold coming out; is that so? After forcing gold into circulation among people for seven years until gold went to a discount, the crisis came, and gold did not come out to help exchange?—As I said, my view is—

4766. No, it did not come out?—Quite so.

4767. Instead of coming out, a further four millions were absorbed?—Yes.

4768. And you say that the four millions might have helped in not bringing out more gold from England or from outside?—Quite so.

4769. Are you sure that that is the only cause, or was it because gold had appreciated, and they wanted more to put into hoards in place of rupees? It only displaces the rupees, nothing else?—I am afraid there is no definite information about that.

4770. So that experience does not give any encouragement that pushing gold into circulation will help exchange?—Does it naturally follow? Even assuming your view is admitted to be correct, when the country is saturated with gold, then the gold in the hands of the people is bound to help Government in an exchange difficulty.

4771. Do you know that the country was then saturated with gold, that there was 300 millions in all imported—accumulated gold—and although the Government did its best to push the circulation for seven years, yet none of that accumulated gold came out; so it does not support your theory that if more gold is pushed into the country it will help Government in the day of its distress?—I am not sure if that is true. You say that gold displaced silver in hoards.

* The figures are being obtained from India, and will be printed as an appendix to the Final Report.

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Supposing we reach a point when there is no more silver in the hoards to be displaced. When that state of saturation is reached, the gold in the hands of the people is bound to help Government in times of exchange difficulties.

4772. How could you arrive at a day when there are no more rupees? At present there are more rupees in the country than gold?—That is so, and for that reason I say—

4773. You say that if you push currency gold into circulation now it will be a help in the future?—Yes.

4774. Supposing the Government were to give as much gold as was wanted, and supposing a time like 1907 came, and the Government stopped issuing, would that not create more want of confidence than to say to them before, "We will not give you all that you want"?—When the stage I am referring to is reached, Government will not have to tell them that it will not give them gold.

4775. Government has to say, "We have no gold," just as they had to say in 1907. You stopped then for three years; do you not remember that?—That was because we had no gold.

4776. Does not that fact create more want of confidence, by refusing to give them gold when they want it, than it would to tell them before, "We will not give you the gold that you want"?—The point is this: We are now going on accumulating a large amount of gold, and, if we supplement that by trying to substitute gold currency for silver currency among the people, the result will be that, when a second crisis comes, there will be in the first place a smaller amount of rupees which will come out from the hoards.

4777. That is your conjecture of what would happen, but it does not seem reasonable from the past; at least, the past has not given any encouragement to go upon?—We have had experience of only one single occasion, and then certainly the gold circulation among the people had not made any large progress, nor had we any large gold reserves in our hands.

4778. I say what has happened in the past does not encourage forcing gold upon people?—I do not see any reason why that should discourage us.

4779. Because the people did not bring their gold out?—That is because the country was not saturated with gold; that is my point.

4780. Did I not say that there is more gold in the country than you will receive for the next 10 or 20 years? India, as they say, is the sink of gold?—That is so, but what is happening is—

4781. You cannot say that there is any encouragement for the pushing of your policy. You must ground your views on the past: the future is conjectural?—My point is this, that we have not sufficient opportunity for judging whether the country would have helped us if it were properly saturated with gold.

4782. That is your conjecture. Now let me deal with what you said about a mint. Is it a necessity or a sentiment?—I consider it mostly a necessity.

4783. Do you know that South Africa is the home of gold production?—Yes.

4784. There is no mint?—I do not know. Possibly the development of currency ideas in South Africa is higher than it is in India.

4785. How is there any dissimilarity? They want gold in circulation. They have the same sentiment as the people of India about gold?—The difference is that in our country there is not quite the same confidence in a paper currency among the people as there is in other countries.

4786. Suppose that a mint were granted in recognition of sentiment—of course, you say it is a necessity—what gold would you bring to the mint? There is, as you say, the Mysore mine gold?—Yes.

4787. Do you know that two-thirds of that gold comes to England, whether you buy or do not buy gold in India? They want it for their profits here?—That I did not know.

4788. If you bring one-third of that gold to your mint, that is, three-quarters of a million, one-third less will come from foreign countries to satisfy the

requirements of the trade, so that India does not gain much in gold?—I do not know much about the circumstances of those mines.

4789. I think you are mistaken in saying that there is no gold refinery; there is a gold refinery?—I doubt it.

4790. The mint refines gold if you want it and gives you a certificate which is accepted by the Bank of England?—I think they assay it, but I do not think they refine it; that is my recollection.

4791. They assay it. Of course, you are for sovereigns, whatever may be the larger cost?—Yes.

4792. To keep up the same coin in the Empire?—Yes, quite so.

4793. I suppose if you use rupees from the Gold Standard Reserve in India you will have to earmark gold here for the currency if it is against exchange. You are drawn upon by the Secretary of State and you have no need to come upon the Treasury: you borrow instead; that is to say, you give from the silver in the Gold Standard Reserve?—Yes.

4794. Then the Currency Reserve will have to be augmented to that extent in England by placing gold in the Currency Reserve which is here?—No, not the Currency Reserve, the Gold Standard Reserve.

4795. No, you are mistaken, if you say it is from the Gold Standard Reserve—you will have to pay gold earmarked here to the Currency Reserve?—You have to pay the gold from the Currency Reserve to the Gold Standard Reserve in England, and against that you pay the rupees from the Gold Standard Reserve into the Currency Reserve in India.

4796. Suppose no bills are drawn against you, or anything like that, and yet India wants the rupees, you have to borrow from the silver portion of the Gold Standard Reserve and replace that by gold from the Currency Reserve?—I do not quite understand.

4797. The Secretary of State does not draw from the Treasury, and yet rupees are wanted from the Currency Department?—Well?

4798. And you have no more rupees to give?—Well?

4799. You borrow from the silver portion of the Gold Standard Reserve and pay into the silver portion gold from the Paper Currency Reserve?—Quite so. We can make the payment in India, but we should probably prefer to do it in England, because on such an occasion the Secretary of State usually sells Council bills in excess of the requirements of the Home Treasury.

4800. How would you benefit by taking some of the Gold Standard Reserve from here to India? I suppose it is said that a portion of it may be kept there?—I do not think I said so. I said that a portion of the Gold Standard Reserve is kept in India.

4801. (*Sir Robert Chalmers.*) You said the silver portion?—Yes, the whole of the silver portion must be in India. That is all I said.

4802. (*Sir Shapurji Broacha.*) You said that the Secretary of State does not interfere with the advice given to him by the Government of India usually: he weighs it and perhaps makes some suggestion?—Did I say that?

4803. You said that recommendations made by the Government of India are as a rule accepted by the Secretary of State with sometimes a suggestion that such and such a thing ought to be done, or something like that.

(*Mr. Gillan.*) In what connection?—Was it about taxation?

(*Sir Shapurji Broacha.*) Yes, and other matters.

(*Witness.*) What I said was, I think, that the Government of India make recommendations to the Secretary of State, and the Secretary of State has full discretion to accept those recommendations or not to accept them, or to place other suggestions before the Government of India.

4804. (*Sir Shapurji Broacha.*) But you said that there are no cases where the Secretary of State has not accepted the recommendations of the Government of India?—I do not think I said that.

4805. Then I will leave it. I want to ask you one more question. If you want to make a gold currency,

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then you will give gold to whatever extent is required?—Yes.

4806. Would you require a gold standard or gold currency? I mean now, at the present time. Would you like in India a gold standard or gold currency?—We have the gold standard, and I want gold currency in addition. I would prefer to have gold currency in addition.

4807. Supposing the gold currency were given, it means that whatever gold is asked to be given must be given?—Does that necessarily follow? All you want is that anybody who takes his gold to the Mint will get back a sovereign in exchange.

4808. No, there is a difference between gold currency and a gold standard. With a gold standard you can refuse the gold, but with gold currency if you refuse to give a sovereign for 15 rupees you have failed to maintain your currency?—If that is so, all I want for the present is the gold exchange standard plus an obligation on the part of the Government to coin into sovereigns any gold presented for the purpose at a Mint in India.

4809. That is quite different. If you introduce a gold currency it means that the Government put themselves under an obligation to give sovereigns for the number of rupees tendered. That is a gold currency. We are now on a gold standard and you wish to have a gold currency?—No, if that is the meaning you attach to a gold currency I certainly do not want a gold currency in that sense at present.

4810. (*Sir James Begbie.*) With regard to the silver portion of the Gold Standard Reserve, on one occasion some years ago the Secretary of State drew against that reserve, which led to a protest by the Government of India. Do you remember that?—Yes.

4811. We have that in the correspondence. That process was repeated later on, in 1910 and 1911, I think?—Yes.

4812. Can you tell me under what circumstances the reserve was drawn upon at that time?—On our side we have not got much to say about the transaction. It was done expressly under the instructions of the Secretary of State. If we had not taken the loan, the Secretary of State would have been obliged to transfer gold from his Treasury to the Paper Currency Reserve or to the Gold Standard Reserve.

4813. That was in 1906?—Yes.

4814. But in 1910 there was no gold at that time, was there?—Yes.

4815. Was not the reserve reduced altogether by Council bill sales?—Yes, on that occasion upon which the silver portion of the reserve was reduced by an increase in the gold portion in England.

4816. That is what I mean: that part of the reserve was intended to supplement the reserve of the rupees in the Currency Department?—Yes.

4817. Was there any need to draw upon that special reserve in 1910 or 1911 to supplement the rupees in the Paper Currency?—No, it was not wanted for that particular reason. The point was that we had a large number of rupees in the Paper Currency Reserve, and at one stage I believe the Secretary of State thought that we might reduce the amount of rupees in the silver branch of the Gold Standard Reserve. So he invested about half the balances of the silver reserve in gold securities in England. Then there was some correspondence between the Government of India and the Secretary of State on the subject, and the silver branch of the reserve in India was eventually raised to the full amount of four millions.

4818. You cannot give us any further information about the reduction of the silver reserve from six crores to three crores?—That is all I can tell you.

4819. With regard to the gold position in 1908 in the Paper Currency Reserve, we have heard a good deal about the question whether gold held in India would support exchange. Can you tell us where the gold was issued in 1908? Was it issued at the Presidency towns or was it issued from the District treasuries?—A good portion of it was issued at the Presidency towns.

4820. And some of it up-country?—Yes.

4821. So far as it was issued up-country, that could scarcely be expected to be exported?—That is so.

4822. At a time like that do you think it is expedient to issue gold to the general public?—I think it is better to do it, because in the first place it would help to allay any suspicion about the intentions of Government to maintain its currency policy, and in the second place my view is, as I mentioned before, that any gold issued in that way would go to reduce the demand for the import of gold into the country.

4823. There is no gold coming into the country at that time?—No.

4824. Do you not think it is of more importance to retain gold when the exchange is adverse for the purpose of maintaining the standard?—The maintenance of the standard is undoubtedly the more important function of the gold in the possession of Government. At the same time, if we do not issue gold at a time of crisis we would immediately engender suspicion in the minds of the masses about the intentions of the Government with regard to the currency. In 1908, as soon as Government said that they did not want to issue gold, I believe there was an increased demand for it at the currency offices.

4825. That was in the Presidency towns?—Yes.

4826. With regard to the purchase of silver for coinage last year, can you tell us whether the plan which was adopted to finance this purchase, that is to say, by the sale of Council bills, was adopted at the suggestion of the Government of India, or was that left to the discretion of the Secretary of State?—I think the suggestion was made by the Secretary of State, and the Government of India did not object to it.

4827. In India the Paper Currency Reserves are kept entirely apart from the cash balances of the Government of India?—Yes, that is so.

4828. Do you know of any reason why that practice should not be followed in London?—I think the same practice is followed in London also, and that the portion of the currency reserve which is held in London is kept quite separate from the balances of the home treasury.

4829. But is it not the case that last year Council bills were sold against the currency reserve in India and the proceeds of those bills were put to the cash balances in London?—No, I do not think that would have happened. In fact, it cannot be done, because the Paper Currency Reserve is under law something quite distinct, and for that reason all the money which is held on account of the Paper Currency Reserve in England is specially earmarked.

4830. In the case of loans which it has been suggested might come from the Paper Currency Reserve, I assume that you refer to loans in India only?—That is so.

4831. Not loans in London from the portion of the gold reserve held here?—No. All I intended was that those loans should be given against an actual increase in the circulation of currency notes.

4832. (*Mr. Gillan.*) Something has been said about these currency chests. I only want to ask in order to make it plain: The object of establishing these currency chests is not to give facilities for encashment of notes, is it?—No.

4833. It is merely what we call a resource operation?—That is so. It is the function of the currency agencies, as I mentioned, to facilitate the exchange of currency notes.

4834. About the use to which gold held in India can be put in time of crisis, do you remember how much gold we had at the beginning of the 1907-8 crisis?—No, I cannot give the actual figure, but I have heard that we lost about four millions in India.

4835. Was that all we held at the beginning of the crisis?—Yes, that was apparently the case.

4836. What I wanted to get at was this: There was considerable discussion in the Government of India at the time, was there not, as to what should be done or should be allowed to be done, with this gold—whether it should be given to people who wanted it for use in the country or restricted to people who wanted to remit it out of the country?—Yes.

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4837. Do you happen to remember anything of the drift of that discussion?—So far as I remember, the Government of India first wanted to restrict the issues to meet *bonâ fide* demands on the part of the people of the country for a gold currency; that is to say, they wanted to stop all issues which were clearly required for the purpose of export, and with this object they decided that gold was not to be issued from the currency offices to anybody in sums in excess of a certain limit at a time; it was probably 10,000*l.* at one time. Then I think eventually they thought that it would be safer to issue the gold freely so long as they had it, because their previous orders led to a rush for gold at the currency offices, and their limit was evaded by half a dozen men from the same bank going to the currency office and getting parcels of 10,000*l.* at a time.

4838. (Mr. Keynes.) May I ask a question? Are we to understand that at the first stage of the crisis the Government deliberately tried to prevent the export of gold and deliberately tried to force gold into circulation?—No, it was not exactly that. What the Government did was to prevent the gold which it had in its possession from going out of the country. That is all it tried to do. It certainly did not try in any way to force gold into circulation.

4839. But it would only issue gold to those who wanted it for circulation purposes?—That is so.

4840. And deliberately withheld it from those whom it suspected of wanting it for export purposes?—Yes, that is the position.

4841. (Mr. Gillan.) For that purpose it imposed a limit?—Yes.

4842. Is that limit still in force?—No, I do not think there is any limit in force now.

4843. Is it not the rule that any applications for over 10,000*l.* in gold shall be reported to the Comptroller-General?—They are probably still reported to the Comptroller-General, but so far as I know they are not reported for his orders. The Accountant-General can issue the gold, and then he reports it to the Comptroller-General for other purposes.

4844. What is your own feeling about these alternatives? Supposing that this monsoon were to fail, you would have a lot of gold in India. How would you deal with the situation? Would you make any distinction between the gold taken for circulation in the country or for remittances abroad?—No, I would not make any distinction.

4845. Would you simply give it out to the first comer until your gold was exhausted?—Yes, quite so.

4846. Assuming that the greater part of that gold were taken for some use in the country—perhaps I am repeating a question already put to you, but I want to make it clear—do you regard that as equally efficient in the support of exchange as gold that is sent home?—It may not be equally efficient, but I think it furthers the same object.

4847. The only reason I think you have given for that opinion is that *pro tanto* it goes to reduce the imports of gold?—Yes.

4848. Is that your only reason?—Yes, that is so; and, of course, there is the other reason that it would help to allay any panic or any suspicion in the minds of the people at large about the intentions of Government.

4849. That I understand. As a matter of fact, in a time of crisis or a bad season does the import of gold in one shape or another continue?—Taking the year as a whole I think it must continue, because some amount of gold must be absorbed for use in arts.

4850. For one reason or another?—Yes.

4851. The import of gold you think is always going on?—I think so.

(Mr. Gillan.) May we have a figure for that, Mr. Chairman? I think we must have it at some time. Can we have it now? I have no doubt we can get it from somewhere.

(Chairman.) Can the witness give us the figures? I do not mean at this moment, but can he hand them in?

(Witness.) I think I could.

4852. (Chairman.) The Secretary will get them.* (To the witness.) In reference to the question just asked you, do I understand that the import of gold which you expect to take place into India in a time of crisis, and which you think might be lessened or reduced by having a larger amount of gold in circulation, is an import of gold, not for currency or for exchange purposes, but as merchandise?—It may be for both purposes. If the people can get the gold required for internal circulation from the currency offices there may be a smaller demand on their part for imported gold for a similar purpose. Of course, in a crisis like the one we had in 1908, the demand for currency will naturally be reduced.

4853. (Sir Robert Chalmers.) May I ask one question as regards the location of the balances in London? In respect of the Gold Standard Reserve, I think I understood you to say that that is located in London in the interests of India?—Yes.

4854. You are very clear about that?—Yes.

4855. And as regards the raising of loans in this country, I think you expressed the opinion that every penny that can be raised in India is raised in India?—Yes. Of course, that is the view of the people on whose advice we depend when raising our loans in the Indian market.

4856. What is your main reason for keeping the Gold Standard Reserve in London? Would it be this sort of ground, that it is in London that the payments have to be made for which the Gold Standard Reserve exists?—Yes, that is so.

4857. Suppose you kept it in India you would not have secured that object?—Not exactly. Supposing we kept it in India, and then a crisis happened, and the Secretary of State was compelled to stop selling Council bills in India, then he would require money to pay the Home charges, and the Government of India would be compelled to ship its gold to the Secretary of State.

4858. It would be an extravagant method of doing the thing which you aim at doing by the better method which you described first?—Quite so.

4859. And in all those matters of the location of balances and the application of balances is it your own private opinion that the one object studied has been the interests of India?—I think so myself.

4860. (Sir James Begbie.) May I ask one question as regards the question asked by Sir Robert Chalmers? You said that if the Secretary of State could not sell Council bills they would have to ship gold. The Government can buy their own drafts against the Gold Standard Reserve in London, can they not?—I do not understand the question. It would be just the other way. In a crisis people would want to pay in rupees in India, and would want to obtain gold in London.

4861. Yes, but I am talking about the Government's own remittances. Supposing the Secretary of State is not able to sell drafts in London on India; in that event you said that the Government of India would have to send home gold, but would the same effect not be arrived at if the Government of India bought their own drafts against the Gold Standard Reserve?—I do not see exactly how it would help them in getting any money in England. The demand then, so far as the Government is concerned, is for more money in England, and in case of a crisis I do not see how the Government could get that money in England without actually shipping gold, if it kept the gold portion of the Gold Standard Reserve in India.

4862. In 1908 the Government sold bills in India against the Gold Standard Reserve in London?—Yes.

4863. The Government then did not buy their own drafts against that reserve, did they?—No.

4864. They could have done so if they had the money in India?—No. I do not quite understand the question. In 1908 what the Government did was this; they took rupees in India and gave drafts on London.

4865. That is to say, to the public?—Yes, to the public. If the Secretary of State wanted to take back those drafts it would not have helped him in any

* See Appendix XXIX., page 633.

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[Continued.]

way so far as the balances in the home treasury went. What the Secretary of State wanted was more money, and these drafts created a liability on him. They increased the payments from the home treasury.

4866. Yes, but the Gold Standard Reserve exists for the purpose of meeting a case like that, does it not?—I understand the assumption is that the Gold Standard Reserve was to be transferred to India. If the Gold Standard Reserve remained in England, of course the Secretary of State could have sold the securities of the Gold Standard Reserve. That would

have depleted the money in the Gold Standard Reserve temporarily. But I think the point was, if the money in the Gold Standard Reserve was transferred to India, what would happen in the case of a crisis.

4867. (*Sir Robert Chalmers.*) That was exactly the point I wanted to put to you—as to the policy. You answered that, in the interests of India it was desirable to keep the Gold Standard Reserve here?—Quite so.

4868. The balances were dealt with in the interests of India here?—Yes.

The witness withdrew.

At the India Office, Whitehall, S.W.

TWELFTH DAY.

Thursday, July 10, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.

Lord KILBRACKEN, G.C.B.

Sir ROBERT CHALMERS, K.C.B.

Sir ERNEST CABLE.

Sir SHAPURJI BURJORJI BROACHA.

Sir JAMES BEBBIE.

Mr. ROBERT WOODBURN GILLAN, C.S.I.

Mr. HENRY NEVILLE GLADSTONE.

Mr. JOHN MAYNARD KEYNES.

Mr. BASIL P. BLACKETT (*Secretary*).

Mr. JAMES N. GRAHAM called and examined.

4869. (*Chairman.*) I think you represent the Bombay Chamber of Commerce?—Well, I can scarcely say that I represent the Bombay Chamber of Commerce. I believe they were good enough to give my name, but my connection with the Chamber of Commerce is of very old date.

4870. Will you give me very briefly, so that we may have it on the record, the nature of your association with India?—It is now, I am sorry to say, about 45 years since I went to India, but I have been closely connected with commerce all that time, and, in fact, I may say that my firm is one of the largest in India, and has very large financial transactions both as regards exports and imports.

4871. I think you wish your views to be taken as personal to yourself and not to be considered as delivered on behalf of your firm?—That is so.

4872. Are you in favour of the establishment of a central or State bank for India?—I assume that the constitution of such a bank has been carefully considered and is looked upon as not only practical but practicable; and it is in that sense that I would answer any question put to me on that subject. Provided that it is practical and practicable, I certainly would be in favour of its institution being very fully considered.

4873. What is your idea of the business which such a bank ought to transact?—I am not a banker, but I should say that the Government of India, like anybody else, requires a banker, and should not be its own Bank. For instance, to become money-lenders, that is to say, in other words, a Bank, is not a suitable function for a Government. That is the view I take of it, and therefore a Bank would be more suitable to do the banking business of the Government.

4874. In the banking business you would include, I understand from what you have just said, the loaning out of any balances; that is to say, you contemplate that the Government of India would keep its balances with the bank, and that the Bank would use them as they thought fit?—I am not intimately acquainted with how the Bank of England carry on such operations, but I should regard these balances as being in very much the same position as the public deposits in this country in the Bank of England.

4875. Would you give to the bank the management of the currency—the note circulation?—I should think that would naturally become one of its functions.

4876. And the exchange business, or that part of exchange business which is at present done by the sale of Council bills?—Yes, I should say so, under instructions from the Council.

4877. Do you contemplate that it would do general banking business throughout India?—That, of course, is a very big question. I have thought a good deal of how it would be constituted in India, and I should think there were considerable difficulties connected with that, not insuperable, but at any rate difficulties that require very great consideration.

4878. You contemplate, I understand, that the Government would be represented on the board of directors of the bank?—Yes, I should think so.

4879. But the majority of the directors would be representatives of the shareholders, and unofficial?—Yes, certainly.

4880. Do you think such a bank should be formed by some amalgamation and possibly extension of the three Presidency banks, or that it should be an entirely new institution, so to say, superimposed upon them?—What passed through my mind was that it would be a new departure absorbing the Presidency banks.

4881. Do you think that the local needs of the people of India would be as well met by one centralised institution of that kind as they are by the three Presidency banks?—I should think that the Presidency banks would still continue to perform their functions within their spheres, and that the central bank, wherever its headquarters might be, would have a directing power. But I cannot talk as a banker; I can only talk theoretically on subjects of that kind. •

4882. In that case you think that something in the nature of a local board, at any rate, would be required in the separate Presidencies in order to provide sufficient knowledge?—Yes, I should think so. India is too large a country for the concentration of all the executive work at one centre.

4883. You have already said that your first reason for desiring, if it were practical, the establishment of such a bank is to relieve the Government of banking duties?—Yes, and not only to relieve the Government, but to relieve the Government officials of duties which I do not think are within their sphere.

4884. Apart from that, have you other reasons why you think that the establishment of a central

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[Continued.]

bank would be desirable?—I do not know on the spur of the moment that I can suggest anything.

4885. I will ask you one or two specific questions. Do you think that such a bank would secure in the form of deposits much of the treasure now hoarded in India; in other words, would it get out of India an addition to the banking capital of India?—That entirely depends. I should say that it came within the functions of the Presidency banks, under the direction, of course, of the head Bank, to organise a system throughout their spheres of establishing credit, because in India it is a matter of confidence and credit to get these hoards out. A native will not bring his money to a bank unless he is absolutely confident that he will get it again. That has been so from time immemorial, certainly for the last 40 or 50 years, to my knowledge. The natives put away their money in the ground because they can find it there again.

4886. As far as they are prepared to bring out their money at all and entrust it to anyone, do you think that want of confidence in the Presidency banks prevents their doing so at the present time?—I cannot say at the present time, because, except as a visitor, I have not been closely in touch with India for a good many years, but I certainly think that it is the case that natives will not readily trust their money to anybody else except to themselves.

4887. But you think if a State bank were established they would have sufficient confidence in that to entrust their money to it?—I think they would; and what I have in my mind is the Scotch banking system, which is a wonderful illustration of what can be done throughout a country by local institutions which get the confidence of the surrounding people.

4888. I was wondering whether the mere fact that the bank was called a State bank and had certain intimate relations with the Government, including at least one Government director on the board, would appeal to the native mind as giving a security different in kind or amount from that which was given by such old institutions as the present Presidency banks?—I think the fact that it was a State bank might. I do not think the personnel would come before the people depositing their money, but the fact that it was a State bank would certainly give confidence, and that confidence would grow when they found that they could take their money and get it whenever they wanted it again, and get it with something a little more than they had put in. Confidence would grow, but it would take time, no doubt.

4889. I think you said you would transfer to such a bank, if it were established, the exchange business, so far as it dealt with the sale of Council bills and transfers. That is so, is it not?—Yes, that is so, because I have always thought that the Council drafts might be regulated, not only for the convenience of the Government, but for the convenience of the general public. I put some views of that kind before Lord Salisbury so long ago as 1876—it is an old story—and suggested that the Council drafts should be allocated more or less throughout the year, and available throughout the year, to meet what were found to be the general requirements of the trade, &c.

4890. I will return to that in a moment, but may I first ask you whether you would allow the State bank to compete with the exchange banks for general exchange?—No, I should say not.

4891. You would confine it to drawings to meet the needs of the Secretary of State?—Yes.

4892. If it was decided to establish such a bank, you have already told us how you would deal with the Government of India balances, but suppose it were decided not to establish such a bank, have you any criticism to make on recent management?—It seems to me that what the Indian Government want in this country are bankers rather than a Bank of their own. They have certain disbursements to make; they have their ordinary disbursements, and disbursements for the purchase of silver, and for creating what may be absolutely essential and necessary as a Reserve fund. These are all disbursements which they have to make, or to provide for, and it seems to me that that can be

done by a Bank more legitimately than by Government officials.

4893. But hitherto the Government have had to do it?—That is true.

4894. And, as you say, as long ago as 1876 you made representations to Lord Salisbury, then, I think, the Secretary of State, on the subject?—Yes, as regards Council drafts more particularly, which had been very badly managed previously.

4895. And following thereupon there was an improvement, in your opinion?—Three weeks after my letter went in, some of the changes suggested were adopted.

4896. Have you any further changes to suggest as a result of your later experience?—The only one which was not adopted—at least, I think it was the only one which was not adopted—was what I have already referred to—a kind of allocation of Council drafts over the year according to what might be considered convenient both for the Government and for the public.

4897. Is not that done now? I think it would be the contention of the Secretary of State that, subject to the necessities of the Indian Government, and to taking security as far as he can that he shall be able to meet them in the course of the year in which they fall due, he does manage his business in the light of the interests of trade?—I have no exception to take to the management as it has been carried on; we are talking rather of principles as to how it should be carried on than the practice which has existed. I should think probably it has been very well managed so far as the present system admits.

4898. You have no particular observations to make on the size of the balances in recent years, either in London or India?—I have not studied what these balances have been, but I certainly think that unnecessarily large floating balances kept in this country are not desirable under the circumstances; that the Government collects its taxes in India, and to transfer that money here and to keep it unnecessarily is not a sound system.

4899. Have you looked into the use of the balances sufficiently to say that in your opinion money has been unnecessarily brought here?—No, I have not.

4900. I presume you would agree that supposing the revenue turns out more favourably than is expected, and there is a considerable balance, it is reasonable for the Secretary of State to bring that balance to this side to meet capital expenditure for which he would otherwise have to borrow?—Yes, certainly.

4901. You would not recommend that a surplus should be distributed in the form of a reduction of taxation unless it were a permanent surplus, I suppose—unless it were one upon which you could count in subsequent years?—Would it not follow that in budgeting for the following year the Indian Government would either take credit possibly for another windfall of the same kind, or for what might be considered a permanent increase in the revenue of the country?

4902. Of course, in any particular circumstances it might be right to do it, or it might not; that would depend upon the particular circumstances. All I asked was, supposing that the Government felt that the surplus was a windfall, to use your own word, which would not be repeated, you would not recommend a remission of taxation which could only hold good for one year with the necessity of re-imposing a tax in the following year?—No. If I may speak from a business point of view, I would be rather inclined to put the windfall into a reserve.

4903. Is not that what the Secretary of State does?—Do you mean in investing it?

4904. Well, in using it for development works, for railways or irrigation?—I am entirely in favour of that.

4905. The reason why he has brought these balances—these large sums—over here is because in normal times, and without the balances, he is a constant borrower here. If, therefore, he has a windfall in a particular year, or in a series of years, could he make a better use of it than bringing it over here to meet

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[Continued.]

expenditure for which he would otherwise have to borrow? In other words, could he make a better use of it than using it to prevent the creation of debt?—Have I not answered that question already? The money would be there, whether it is in India or here, and available for that purpose, and it would be a matter of convenience, I should say, whether it was held in this country or in India.

4906. Suppose the Secretary of State had larger balances in India, or that there was a surplus in his existing balances, do you think it would be desirable for him to loan out the surplus in India in somewhat the same way as he has lent out temporary surpluses here in London?—No, I do not think Government should do that. I think that should naturally go through a Bank. Is not the system now that the Presidency banks receive the balances of Government?

4907. They receive a portion. They always have a good deal of Government money, but at the same time there is a good deal of money in Government treasuries at certain periods of the year, and it has been suggested that at the busy months of the year the Indian Government might lend that money on the Indian money market?—Would it not be better for them to let the Presidency banks have it? I was connected at one time with the Bank of Bombay—I think I was chairman at the time—and I remember, I do not know whether it was the Secretary of State or the Finance Minister, trying to corner the money market of India in order to raise the rate of exchange for Council drafts. That is not an incident which is likely to recur, I should think, but that is an actual fact.

4908. Supposing the Government of India made a practice whenever it could of lending additional sums to the Presidency banks in the busy season of the year; let us suppose that they had been able to do that for three or four years running, and then came a year of strain and stress in which they were unable to make any loan, what would be the effect of that upon trade?—In whichever way it was, the effects on trade must be very serious, but I do not see how it would make any difference that they had benefited trade at one time and that they could not do it at another time. Trade would have to look after itself.

4909. A suggestion has been made that if they had done it for two or three years trade would have come to count upon it, and when, after that period, it was not done, the effect upon trade would be much more serious and disastrous than if it had never been done at all?—I think trade would look after itself.

4910. I go to another subject. The Secretary of State has, of course, very heavy demands to meet in London, and they are growing as he borrows more money. Do you think he could lessen the strain by borrowing more largely in India? I do not know whether you can speak with authority upon that question?—I do not think I can speak with authority, but from my knowledge of India I should always advocate that, if loans can be raised in India, the money should be obtained there rather than in London.

4911. But you would not like to express a confident opinion as to whether he should borrow more largely than he has done in India?—No; there are much better opinions obtainable than mine on this subject.

4912. I gather from what you have already said that, assuming the Secretary of State is to deal himself with Council bills and transfers as at present he has to do, you favour his practice of selling, not merely to meet his own requirements, but as far as he can up to the requirements of trade?—No. I would not advocate his selling more than he requires for his disbursements and possibly for other purposes, such as, for example, if it were desirable to increase the reserve fund in this country.

4913. Taking his own needs in the widest way, you would say that he should sell to the extent of those needs, but no further?—Yes, that is the doctrinaire view which I would take. Whether or not a little elasticity should be allowed in that—whether he should sell at higher and higher rates—I am not prepared to say offhand. That is an open question; but certainly as a rule—there might be exceptions—I should think that he should sell to meet his own legitimate requirements

4914. Do you think that they would be generally held in India?—I do not know.

4915. What is your objection to his selling to meet the needs of the trade in addition to his own requirements, if he can do it without inconvenience?—I think myself that trade had better look after itself, and that if the money that has been collected in taxes is through banking channels put at the disposal of trade that is quite sufficient.

4916. I think that you have always been in favour of the creation of a gold reserve?—Yes.

4917. And you thought that the creation of a gold reserve necessitated the restriction of the free coinage of silver?—Yes; in fact, I may say that I go back to the year 1876, when for some six years the great battle of the mono-metallists and the bi-metallists had been raging; and I do not know whether I was the first or not, but I then put forward the necessity of creating a gold reserve, and the consequent necessity of restricting the coinage of silver. I do not know that anybody else had proposed that before I did so myself.

4918. Looking back on what has happened since those steps were taken, you see no reason to modify the opinions you have expressed?—None whatever.

4919. In connection with these changes, I think you advocated the opening of a mint for the free coinage of gold?—Yes.

4920. And you recommended that the coin should be the sovereign?—Not necessarily the sovereign, but a coin identical with the sovereign.

4921. In weight and fineness?—Yes.

4922. Will you tell me shortly why you advocate the opening of a mint for the coinage of gold in India?—There is nothing novel in that idea at all. In 1835 the Government had dies for gold mohurs. I forget what the value of the mohur was, but I have one in my pocket. Again, in 1870, the Government, without consulting anybody, so far as I can remember, took it into their head that they were going to introduce, I suppose, bi-metallism into India, and they sent out the dies for 10-rupee and 5-rupee pieces. That was in 1870. There were, I think, only 30 of the 10-rupee pieces coined; I have one with me at present. That was the date when the great revolution took place both in trade and in money by the opening of the Suez Canal, and owing to the results of the Franco-German War, and so the dies were luckily put on the shelf, and were never used any further, because had it been attempted to put a 10-rupee piece in circulation it would very soon have disappeared.

4923. Where would it have gone; would it have been melted down, or hoarded, or what?—It would have been melted.

4924. But you think that a sovereign, or the equivalent of a sovereign, would not be?—If it is called a sovereign or a mohur, or whatever it may be, it has in India its market value. If you give it a fixed rupee value you get into all the difficulties of bi-metallism.

4925. I do not think you have yet told me why you want a mint opened, except that you said it was an old idea?—Merely for public convenience. I do not think that is a very important consideration. It is a matter of public convenience that anyone who has gold bullion in any shape might go to the mint and get it coined.

4926. Do you think that much gold would be taken to the mint in India if there were a mint?—I do not know. I think I rather founded my idea on the fact that preceding Governments of India had contemplated coining gold, and I did not know of any objection or difficulty. If there are difficulties or objections, then the sovereign is a very excellent coin, and might do all that is required.

4927. Is there any difficulty in getting sovereigns if people want them in India now?—I have only in recent years been there as a visitor, and now I have been very glad to find that sovereigns pass freely and are easily obtainable.

4928. Your desire, I gather, is to see a gold currency as far as possible established?—No, I do not think that matters very much. I should like to see it so far current that you could always change a gold coin; for instance, not to take a sovereign to get your ticket

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[Continued.]

at the station and be offered 10 rupees for it, as you were long ago.

4929. On the other hand, if people can be induced to use paper currency you see no objection?—No objection at all. In fact, I think that it is quite possible that if there were a Bank such as we have been talking about—this may be theoretical—there might be a gold paper currency as well as a silver paper currency.

4930. Would it be an unfair inference from what you have said that on the whole your reasons for favouring the opening of a mint in India are sentimental rather than practical? I do not say they are any the worse for it?—I do not admit that they are sentimental. I merely adopted them because I thought it might be a convenience to the public.

4931. As regards the gold standard reserve, have you any observations to make upon that?—Do you mean as to where it should be located?

4932. Yes; in the first place, where should it be kept?—I think the best place to keep a reserve is the place where it will be required for the contingencies against which it provides, and therefore I should say that is in London.

4933. Have you any view as to the amount which it should reach? It is fed from certain sources. Would you continue to feed it with the whole of those sources until it reaches some fixed amount?—I think that is a question upon which the Government should get the expert advice of bankers and others, which would be more valuable than mine.

4934. You would say, therefore, that it was also rather a question to put to bankers as to what proportion of the reserve should be held in actual gold and how the rest should be treated?—I should say that there certainly should be a reserve which is held permanently in gold on certain conditions, that is to say, it is held against certain contingencies, and only available for use should those contingencies arise.

4935. What are the contingencies which you contemplate specially?—For instance, we have had experience of famines, and difficulties, when it would not be desirable to force Council drafts on the market, and under such circumstances it might be desirable to trench on the gold Reserve.

4936. You would use it as a reserve for the maintenance of the exchange value of the rupee; is that your meaning?—Not exactly that, but to prevent enforced sale of Council drafts in this country.

4937. In an unfavourable market?—Yes.

4938. The effect of that enforced sale would be to depreciate the exchange value of the rupee, would it not?—Yes. I should think just now, for instance, supposing the Council were to offer 100 lakhs of Council drafts and make no restriction as to the rate at which they were to be placed, we should not see much of the fixed rupee.

4939. Am I right in saying that the object with which you originally proposed the gold reserve was the maintenance of the exchange value of the rupee?—No, I do not think that is the primary object of the reserve.

4940. What is the primary object, in your view?—The primary object is because the Indian Government has gold obligations to meet which it must meet, and if it only had silver with which to meet them it would be in a bad way.

4941. It is a reserve for the times when the circumstances of trade are such that it cannot get gold to meet its obligations here in any other way?—More or less, yes.

4942. I think you do not desire to express any opinion as to the amount which should be held in gold?—No, I think that is a question which would require a great deal of consideration.

4943. Have you any criticisms to make on the present practice in regard to the purchase of silver for

rupee coinage?—I think that such transactions would naturally go through the bankers or the Bank, whichever it might be, that represented the Indian Government in London.

4944. But as long as there is no such bank you have no suggestions to make for improved practice in those matters by the Secretary of State?—I think the difficulty which arises there is in respect of what might happen—not what has happened or what is likely to happen, but as regards what might happen. For instance, with regard to the recent incident in which the Government were rather called to account for the way in which they acquired silver, I think in that case the transaction was carried out on good business lines, but, on the other hand, it is conceivable that under the conditions which exist it might have been badly or improperly carried out.

4945. You think, at any rate, it is an invidious duty for a Government to have the discharge of, and that it would be better done by a business institution?—I think so.

4946. (*Mr. Gladstone.*) You have referred to the objection to Government undertaking such very large banking and financial business, but the same thing applies, does it not, to the management and control of railways? The circumstances are such as almost to render this large Government superintendence essential. Would you go so far as to recommend that the railways should no longer be managed by the Secretary of State?—What I have had in view in anything I have said has been mainly in respect of financial transactions when Government officials are brought into direct contact with the public. As regards the control and management of State railways, these involve other considerations than those I have referred to. The executive and financial management of State railways necessarily devolves on the direct representatives of the Government.

4947. Then in the event of a State bank being established it would be necessary to have a great deal of Government control?—I should think there would be decidedly a certain amount of Government control.

4948. So that that would not really relieve Government of the responsibility of continuing to conduct these operations?—I think it relieves Government of the operations themselves. The Government do not become moneylenders themselves; it is an institution which does it. At present the Government are money-lenders.

4949. Take the control and management of the Port Trusts in India, where there are official directors. In the last resort the Government is held responsible for the policy and the direction of these Port Trusts, although they may only have one or two representatives on the Trusts; is not that so?—There is nothing in the nature of trade in that, either in money or other things.

4950. The management of docks is a large business operation?—I do not see how it would be possible to manage it otherwise. That is one of the functions which the Government exists for, I should think.

4951. (*Sir Shapurji Broacha.*) Were you in Bombay when the first Bank of Bombay was in liquidation?—No, I arrived just after; it was still in liquidation, I think, when I arrived in Bombay.

4952. I mean the first Bank of Bombay—the old Bank of Bombay. Were you there when it went into liquidation? Do you know the history of the first Bank of Bombay?—No; I arrived in Bombay about two or three years after it failed.

4953. So that you do not know anything about that, or its constitution?—No.

4954. Or whether the Government had shares in it?—No, I know nothing about that.

4955. Nor about the Government directors on the board?—No.

The witness withdrew.

The Hon. MONTAGU DE P. WEBB, C.I.E., called and examined.

4956. (*Chairman.*) Will you begin by telling us briefly what your Indian experience has been, so that we may have that on the record?—I first went out to India 23 years ago as a merchant, and my experience for the last 23 years has been as a merchant.

4957. I think you are President of the Karachi Chamber of Commerce?—Yes.

4958. Do you express their views to-day?—Yes.

4959. You speak for them as well as for yourself?—Yes.

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[Continued.]

4960. You have been good enough to supply us with a memorandum giving your views on the subjects referred to, and I propose to print that with your evidence, as we have done with other witnesses, or shall do with some other witnesses (*see* Appendix XXI., page 550). That being so, I will not ask you questions on what you have written there, but I will put some questions to elucidate what you have written. Your first point, I see, is that the total balances of recent years have been excessive?—Yes.

4961. Am I right in thinking that you attribute that to undue pessimism in budgeting?—Yes.

4962. You think that on the facts known to the Finance Minister at the time when he presented his budget he would have been justified in taking, and indeed ought to have taken, a more favourable view of the outgoings of the following year?—Yes.

4963. At the same time I suppose you will admit that it is very difficult at the beginning of a financial year in India to forecast what the revenue for the following year will be?—Very difficult.

4964. It depends in the main on the monsoon, I suppose?—Yes.

4965. That directly affects the general revenue?—Yes.

4966. And of course the railway revenue?—Yes.

4967. Would you agree that under those circumstances, having regard to the uncertainty, it is desirable that the Finance Minister should err if at all on the side of caution?—Yes.

4968. You would agree that it would be undesirable that, owing to having taken too sanguine a view of the prospect and having remitted taxation, he should have in the next year to re-impose the taxation remitted?—Yes.

4969. In regard to those balances, you suggest in your memorandum, I think, that they should have been used to reduce taxation; that on realising those balances the Government of India should either have reduced taxation or budgetted for large deficits, or suspended all borrowing and invested the balance in reproductive works?—Yes.

4970. Having regard to what you have just said to me, do you think that in the circumstances of those years a prudent minister would have remitted taxation?—Yes, I think so. I think that excessive caution was shown in preparing these budgets. I think considerably more risk might have been run without jeopardising the financial position at all.

4971. You think that, say, in the first of the years that you take, it would have been safe on the results of that year to reduce taxation in the following year; or in which year would you have thought that that could be done?—Yes, I think that with a million and a half surplus something might have been taken off.

4972. On the facts as then known; not looking back with your knowledge since acquired of the results of the later years, but upon the facts as then known?—I think so. I think in any year when there is a million and a half or two millions to the good the Government would be safe in budgetting to dispose of that surplus, not necessarily by taking off taxation, but perhaps by using the money instead of raising fresh loans—the customary and usual loans.

4973. Given the situation of India as it is at present, I think that you recognise that she needs large capital sums for development?—Very much so.

4974. Assuming however, that you had a surplus available, would you have advised the use of it for development purposes?—Yes.

4975. Rather than for the reduction of taxation?—Yes. The chamber of commerce in Karachi have pressed that course upon the attention of other chambers, and I think we also have drawn the attention of the Government to it; but I am not quite sure about that. We have certainly consulted other chambers on the question of utilising these large surpluses, particularly for railway purposes.

4976. So that, of the three alternatives which you suggest in your memorandum, the one which you yourself would have chosen would have been suspending borrowing and devoting the surplus to reproductive capital expenditure?—Certainly. May I in this connection draw attention to the fact that by a

printer's error in the fourth line of paragraph 5 of my statement "15,000,000L." has been printed for "5,000,000L."? I intended it to be 5,000,000L. It should read, "And that a cash balance of, say, 5,000,000L. in excess" instead of "15,000,000L."

4977. That shall be corrected. You said that your criticism is that the Government of India was unduly pessimistic?—Yes.

4978. Putting that on one side for the moment, assuming their calculations were reasonable at the time when they were made, would you then criticise their practice, or would you say that taking their assumptions—assuming their premises—they did, in fact, what you would recommend?—To a certain extent, yes.

4979. Having a realised surplus in each of these years they did not budget to swell the balance so obtained, but they budgetted to reduce it to something like the normal. Is not that so?—I think last year a surplus was budgetted for, as far as I remember. I seem to have a very distinct recollection of Mr. Gokhale over and over again pressing the attention of the Council to the fact that there was a surplus, and that he was positively certain that the surplus would be very much greater. I remember that distinctly. I think it was in last year's budget debate.

4980. Of the years you name, I think the only one in which they deliberately budgetted for a larger balance than usual was the year 1910–1, and the ground put forward for that was that they had heavy repayments for debt to make in 1912?

4981. (*Mr. Gillan.*) May I explain? What happened was that the Government of India, in the budget to which Mr. Webb refers, had budgetted for a surplus, I think, of a crore and a half, and what Mr. Gokhale said in the budget debate was, It is quite true you have budgetted for this sum, but I think you really are going to have a surplus very much larger. He said that in the budget debate, and I think that is what Mr. Webb meant?—That is what I have in mind.

4982. (*Chairman.*) That is really your original criticism, that they were unduly pessimistic?—Yes.

4983. That may be a question of temperament or wisdom?—Quite so.

4984. But I was going to intentions. Assuming that their programme had been realised and their estimates had been correct, you would not have found great fault with the results, would you?—If the estimates had been proved to be correct, no.

4985. As regards the use made of the large balances, in paragraph 8 of Part I. of your memorandum (page 552) you point out that the Secretary of State has lent to certain borrowers in London large sums of money for a period of several years in all?—Yes.

4986. And that those loans have always been made as short-term loans?—Yes.

4987. And that therefore the rate of interest which has been obtained has been less than would have been secured if the money had been lent for longer periods?—Yes.

4988. I want to ask you whether, in your opinion, the Secretary of State was wrong to lend only for short terms?—I think certainly wrong in view of the magnitude of the balances available.

4989. You think he ought to have adopted the policy of lending, say, for 12 months?—Assuming that he was correct in accumulating this money in the first instance, then the best policy if he was able to lend it would have been to lend it certainly for very much longer periods than three to five weeks.

4990. But assuming that he believed that his balance would be reduced by the end of the year to normal, would you still say that on that assumption he was wrong to make his loans for such short periods?—That question seems to me to take the form that assuming that he was right he was right; but seeing that every week he was withdrawing money from India, which he did not in the least require, in my opinion, he could not possibly imagine that he would run short of money. By the sales of Council drafts he is weekly withdrawing money, so that he would be an extreme pessimist who thought that he was going to run short of money, I think, in those circumstances, especially with 10 millions, 12 millions, or 15 millions of cash in hand.

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4991. In your view the major portion of that money, or a large portion of that money, should have been left in India?—Yes.

4992. And as I understand, you would suggest that in India it should be lent out to lessen the stringency of the money market?—Yes, if this accumulation in the first instance was unavoidable.

4993. Might it not be right to accumulate it even though it were avoidable, India being a country which is in this great need of development of which you have spoken? The amount of development which you do is measured very largely by the resources which you can make available in any year?—In a sense, yes.

4994. If you have a prosperous year might it not be good policy for the Government of India to use that prosperity to carry out a larger policy of development than it otherwise would do?—Yes, it might conceivably be so. If it be laid down as a general policy of the Government of India that money shall be raised by taxation which is to be used as capital on reproductive works, there is a great deal to be said for that policy at times.

4995. As regards the balances which might have been made available in India, to whom would you have lent them?—In the first instance to the Presidency banks.

4996. Would you have gone outside the Presidency banks?—Yes.

4997. You mean that the Government of India should directly have lent to others besides the Presidency banks?—Yes.

4998. To whom?—There are many other banks. Some of the exchange banks which are operating in India borrowed some of this money in London. I have no doubt they would have borrowed it quite willingly in India, where it was, no doubt, wanted.

4999. Then you would lend it both to the Presidency banks and exchange banks if they wished to take it?—Yes.

5000. Would you lend it to anyone else?—Yes.

5001. To private borrowers?—Yes.

5002. Would you ask security from everybody?—Not necessarily everybody. I should ask security from most people, certainly.

5003. From all private borrowers I assume you would ask security?—I think so, yes.

5004. Would you from the banks?—Not necessarily. It depends upon the amount and the time, and the general situation. There are times when I should unhesitatingly lend the banks any amount of money on no security, and there are other times when I might conceive it advisable in the public interest to take security. It depends on the general financial circumstances, and possibly the political situation at the time.

5005. Does that mean really that it would depend upon your judgment of what the position of the banks was at the moment?—Yes.

5006. You are aware that the Presidency banks have considerable Government balances, I suppose?—Yes.

5007. But you think that without taking security it would be safe largely to increase the sums placed with them?—Yes, I think so.

5008. Do you contemplate that this money would be needed all the year round?—A large sum of additional capital?

5009. Yes?—Possibly not all the year round.

5010. Mainly in the busy months, the winter months?—Mainly in the cold weather, yes.

5011. So far as you took security, what sort of securities do you contemplate that the Government of India might accept against such loans?—All Government paper in the first instance, and securities of semi-Government institutions such as the Bombay Improvement Trust or the Calcutta Improvement Trust, and I do not know why selected Port Trusts, and even selected municipal loans, should not form a good security for temporary advances.

5012. Securities of public authorities generally?—Yes.

5013. You do not mean that the Government of India should lend on commercial paper?—No, not on commercial paper.

5014. What amount of money do you think could be usefully employed in India in that way?—It is very difficult indeed to say. Of course, the popular impression is that there is not very much scope for using very large sums of money. That is the popular impression, but as against that there always are, in my own practical business experience, large demands for capital, and there are always large opportunities for employing capital, and to me there are many opportunities which are not availed of. I can see many opportunities of using capital.

5015. Do you think they would use more than four or five crores in any normal year?—In the busy season?

5016. Yes?—It is very difficult to say. I could not say straight away, but I think the general impression, so far as my experience goes up to the present, is right, and that there is no large scope for the sudden engagement of enormous volumes of money such as there is in this country.

5017. It has been objected sometimes, and I think it is an objection which has had weight with the Government of India in the past, that even if they could see their way from time to time to lend money in the method which you propose, there would be a danger that the Indian money market and Indian traders would come to count upon that assistance from the Government, and then if in any year the Government was unable to give it, very serious consequences, something in the nature of a crisis, might follow. What do you say to that?—I do not think there is any ground for that theory in the least. I think that with a thoroughly suitable and satisfactory currency system you could always draw funds in large quantities from London in emergencies.

5018. So that you think it conceivable that there might be difficulty for the Indian Government to withdraw this money from the banks to which it had lent, or refuse to lend to them, but you think that London would be a reservoir out of which it could always supply itself?—Yes, in an emergency.

5019. Of course, as you have said earlier, the revenue of India is a very uncertain quantity, depending so largely on one factor, the monsoon?—Yes.

5020. You also are aware, of course, that the demands which the Secretary of State has to meet in London year in and year out are very large?—Yes.

5021. Do you not think there is something to be said for his practice of getting his money over here when he is certain that he can and not waiting till the last moment when he needs it, and when he may find a difficulty in transferring it?—My view is that he can take very much greater risks than have been taken in the past.

5022. You think in that respect also he is unduly cautious?—Dreadfully pessimistic.

5023. I want to turn for a moment to paragraph 9 of Part I. of your memorandum, where you point out that in 1910 the cash balance in hand on the 1st April was nearly 12,800,000*l.*, and yet in that year you say that the Secretary of State borrowed three sums of 1,000,000*l.*, 2,500,000*l.* and 1,500,000*l.* respectively?—Yes.

5024. I think your contention is that, given that cash balance, he ought not to have borrowed?—No, he ought not to have borrowed, I think.

5025. The borrowing, I think, took the form of a renewal of the bills which fell due?—I think it did.

5026. In that year, 1910, the budget estimate was for a closing balance of five millions odd?—Do you mean the Secretary of State's budget?

5027. I mean the budget of the Indian Government?—I cannot say from memory.

5028. I misunderstand you, perhaps; I mean the estimate of the India Office balance?—The Secretary of State's estimate?

5029. Yes. The estimate to which they were working was that the balance of 12,799,094*l.* on the 1st April would be worked down to a little over five millions on the 31st March 1911. Perhaps you would take it from me that that was their estimate?—Yes.

5030. That is the estimate which was framed as to what the position would be at the end of the year. You would say 5½ millions, which is the figure which

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he estimated to have, was too great a figure?—Two millions too great, I think.

5031. You would say that, although he had to pay off 2½ millions of bonds at fixed dates besides meeting his ordinary expenditure?—Yes.

5032. You think with that in front of him it would have been safe for him to estimate for a balance of only three millions at the end of the year?—Certainly, I think so.

5033. You recognise that his decision as to paying off bills must be taken a little in advance of the time at which they fall due?—Yes.

5034. If he has to renew bills he must make his arrangements with the Bank of England so as not to clash more than is necessary with other operators?—Yes.

5035. Taking those figures, there was one million falling due on the 9th April, 2½ millions falling due on the 10th June, and 2½ millions falling due on the 1st December. Those are the figures given in your memorandum (page 553), with the exception that the December number in your memorandum stands at 1½ millions because only 1½ millions out of the 2½ millions was renewed. What I wanted to put to you was, whether you thought that at the time of the year at which he had to take his decision as to renewing the sums falling due in April and June he had any more knowledge than he had when he framed his original budget estimate of what the results of the year would be?—He could have no more accurate knowledge of what the final results would be, certainly, and also that part of the year I admit was a very bad season of the year at which to draw money from India; but in that respect I can only say he appears to me to be unduly pessimistic. I think that he is not running nearly so much risk as a private financier who had to deal with those figures would run. He is taking a very much safer line, and an unnecessarily safe line, it appears to me.

5036. But given what you consider his original error of being unduly pessimistic in framing his budget, nothing had occurred up to that time which ought to have made him reconsider the position?—That I cannot say from memory now. It was in 1910.

5037. But you would agree that at that period of the year—early in June—he would know little or nothing more of the prospects of the year than he did when he made his budget statement?—No, not much more in June.

5038. So that, given the original error, the practical criticism is that instead of paying off only one million in December he ought to have paid off the whole 2½ millions then?—I think he might have done so, yes.

5039. Is it within your knowledge that besides those bills he had to pay off nearly two millions in 1912–3 and a sum of 1½ millions in 1913–4?—There were large sums to be paid off, but I do not remember exactly what the figures were and the dates.

5040. Would you admit the necessity for doing that as a reason for keeping the balances somewhere above normal, at whatever figure you might fix your normal?—It does not appear to me necessary to make any special provisions for those payments when there are cash balances at the beginning of the year of over 16 millions sterling. I cannot see any necessity to make any special provision for anything with a 16 millions sterling cash balance. In fact, if he drew no bills throughout the whole year he could very nearly carry on and pay off all debts with an opening balance of 16 millions or an opening balance of 18 millions. I cannot conceive any necessity to make any preparation.

(Mr. Gillan.) May I explain that the budget always provided for a very large reduction in the opening balance?

5041. (Chairman.) What do you say to Mr. Gillan's suggestion? Let me put it in this way: It seems to me that because not merely the opening balance, but the closing balance, was very high, you argue after the event that he ought to have done something different?—Yes.

5042. But the Finance Minister did not anticipate that the closing balance would be very high. I think he proposed to keep it higher than you consider

necessary, but I will come to that in a moment; but in each of these years he budgeted for a great reduction in the closing balance?—The Secretary of State budgeted for a certain reduction, but the figures appeared to me to be extremely questionable. I have before me the explanatory statement which was published last February, giving at length the reasons for those reductions (Cd. 6619). In explaining these large closing balances, on more than one occasion the reason is put forward that the Secretary of State drew nine millions in excess of his requirements. That is the explanation which occurs on more than one occasion, that the balance turned out to be very much greater than anybody had anticipated or imagined, the reason being that the Secretary of State had himself made it very much larger by weekly piling it up without the slightest necessity, as it appears to me.

5043. Assuming that the total balances were for one reason or another very much larger than had been expected, what was the best use that the Government of India and the Secretary of State between them could have made of the surplus?—I think the best use would have been to place money at the disposal of the Indian money market, not to have lowered exchange by drawing it away to this country.

5044. But in getting it over here was not the Secretary of State getting it where it would eventually be needed?—Not in the slightest, I think.

5045. Would it not eventually go to capital expenditure on railways?—It might do so, but I do not know that it necessarily would; and if it went to capital expenditure on railways, then a certain proportion of it, and only a certain proportion, would need to be expended in this country.

5046. But to the extent to which he had to spend it in this country on rolling stock or on material for the railways, London is the place where it would be wanted?—Yes, to the extent to which the surplus balances are expended in railway material, London is the place where it would be wanted, certainly.

5047. And to the extent to which it went to the redemption of debt, it would be wanted in London?—Yes.

5048. To the extent of those two demands do you think that the Secretary of State was right to bring it here?—I cannot say that I do, because I do not think when the money was brought over there was the slightest idea as to how it was to be used at all. So far as I am able to discover by looking at the records it seems to me that it was brought to this country without rhyme or reason, and when the money was accumulated here in enormous quantities then only did the office turn round to see what could be done with this money. I do not think it was contemplated that the week-by-week withdrawal was for the specific purpose of buying railway material in case it might be wanted in the future. I do not think that was the intention, although, of course, when the money was brought here it had to be utilised somehow. But if the surplus collections of revenue are utilised in capital works, then a certain proportion will be required in London, and it can be made use of; but that only appears to me to be, so to speak, a way out of a difficulty. Having brought the money here and having to use it somehow or other, perhaps the best way to use it was to expend it on capital works—reproductive works.

5049. We will pass from the question whether the original estimates were justified. Supposing the money to be there, could the Secretary of State or the Indian Government have employed it for any purpose more useful to India than either the reduction of old debt or the avoidance of new debt?—No, probably not.

5050. If they had at once employed it for either of those purposes you would not have criticised their action?—No, if the money had been employed immediately for those purposes; but debt cannot be redeemed at a moment's notice. The action which our chamber of commerce took was to press upon the Government the desirability of expending some of the surplus accumulations on railway construction. That course we took on several occasions. Of course, we do not in Karachi have the knowledge of the moment at which debt can be redeemed, but we do know, or we think we have some idea, when money ought to be spent, on

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capital works, and when we saw large accumulations, the action we took was to press for the utilisation of that money on capital works as being the best way to make use of it.

5051. When you and I both just now made use of the expression that if the Secretary of State had been able to use this money immediately you would not have greatly criticised, you would not press the word "immediately" too hard, would you?—No.

5052. You mean within a reasonable time?—Yes, but in view of the figures in my note I might say that three or four years, or four or five years, was not a reasonable time.

5053. Your real complaint on this matter, given the existence of the high balances and the fact that they could not be or were not used at once in the way stated, is that they were loaned out on the London money market instead of being loaned out in India?—Yes; in short, that the best use was not made of the money.

5054. The best use in what way; the best use from the point of view of earning interest, or from the point of view of the general advantage to India?—Both.

5055. You think a higher interest could have been earned in India?—I am quite certain it could.

5056. Do you hold that opinion on an average of the whole year?—Yes, certainly.

5057. Taking account of the fact that you might only be able to employ the money in India for a small portion of the year?—Small sums of money might be utilised through the whole of the year, but very large sums of money could not be utilised through the whole of the year. Past experience has not led the Indian money market to expect that these enormous sums of money will be available, and it is not to be expected that in any year when a large amount of money is suddenly thrown at the money market in India it can receive it or make use of it. Even the London money market broke down under those circumstances; no securities could be produced, and the money had to be given to bankers on deposit without securities; this happened even in London; and it is not to be supposed that India could swallow such large sums of money unless it had been the habit for many years to place this money at the disposal of the Indian money market. If the money was regularly made available in India I have not the slightest doubt that means could be found for making use of it.

5058. I think you formed a special objection to the loan to bankers in England; or is your objection there merely a general one to loaning the money in London at all?—A general objection. I do not intend my note to be any reference to individual borrowers in any way. If the money is lent, of course I assume that it has been lent to the best borrowers and to the best advantage. I am only objecting to the whole principle.

5059. Does that apply to what you say in paragraph 10 of Appendix XXI. (page 553)? At the end of paragraph 10 you mention one particular house to which loans were made?—Yes.

5060. That is merely an illustration; you have no special criticism to make?—No.

5061. Suppose these balances had been retained in India, I understand from what you have told me there were two methods by which you would have used them; one was in loans to the banks and other borrowers, and the other was in railway development in India?—Yes.

5062. Railway development in India, I suppose, would have caused a corresponding increase in the Secretary of State's expenditure at home?—Yes.

5063. And to that extent would have justified additional remittances to this side?—Yes.

5064. In paragraph 12, Part I., of Appendix XXI. (page 553) you say: "Remembering that the Indian "Paper Currency and Paper Currency Reserve are "under State control and therefore easily available to "Government in times of grave national emergency, "I am of opinion that the Government of India's "floating cash balance ought, in the interests of "economy, to be kept down to a maximum of "10,000,000*l.*" What is the meaning of the reference to the Indian Paper Currency and Paper Currency Reserve in that connection? Do you mean that the total currency reserve should be diverted to other

purposes besides the maintenance of currency?—In times of grave national emergency, yes, certainly, in exactly the same way that the Bank Charter Act has, in times of grave emergency, been suspended in this country, and issues of bank notes have been made against which the securities were not held which were required under the Act. In the same way, in times of grave national emergency, no doubt paper currency could be issued in India against which the securities which are required under the Paper Currency Act would not be held. In other words, paper currency might be floated to some considerable extent in times of national emergency without any security except the credit of Government.

5065. (*Sir Robert Chalmers.*) If I may interrupt, is it the fact in the case of the Bank of England that there has been any issue without anything at the back of it?—I think practically nothing except the credit of the Government.

5066. That is your belief, is it?—I think so, yes.

5067. You do not take the view that it is the absence of gold and the deposit of securities which must be utilised in those circumstances?—The reason for the note issue is the absence of gold—the scarcity of gold.

5068. Instead of gold, would you not agree that in those cases the action contemplated has been to deposit securities in lieu of gold, but still securities?—Yes, it may have been so contemplated.

5069. It is not an issue with nothing at all behind it?—I think it has been.

5070. (*Chairman.*) Does it not occur to you that at such a time as you have spoken of, instead of there being an increased demand for paper currency, paper currency might be coming in for encashment?—It probably would in some circumstances.

5071. But you would take power to refuse encashment?—Yes, I think it might be done in times of grave national emergency. Supposing the metallic supply of currency runs out or could not be got hold of—suppose it was hoarded or disposed of in some way to cause the Government embarrassment, I think the Paper Currency Act might be suspended in a time of grave national emergency till the crisis was got over.

5072. In forming your view as to what balances the Government of India ought to keep, you are influenced in part by the fact that there is a reserve against the note issue which you think might in a crisis be made available to supplement any deficiency in the balance?—Yes.

5073. Of the total balance of 10,000,000*l.* which you suggest, you propose that 3,000,000*l.* might be kept in London, leaving 7,000,000*l.* in India?—Yes.

5074. Will you tell me how you arrive at all three of those figures; by what process of calculation or reasoning do you arrive at the fact that 10,000,000*l.* is sufficient in the whole, 3,000,000*l.* in London and 7,000,000*l.* in India?—Do you mean the proportion of three to seven?

5075. And the total?—The total of 10,000,000*l.* I have arrived at because on former occasions the Government of India's cash balances have been down to that figure without disaster.

5076. And the proportion?—The proportion is on the same principle. The Secretary of State's balances have been down very nearly to three millions. I think in years gone by the usual figure used to be about four millions; it was three and a half to four or four and a half millions. I think that used to be the Secretary of State's balance many years ago.

5077. (*Mr. Gillan.*) Will you give us the years to which you refer?—Do you mean the Government of India's balance being down to 10,000,000*l.*?

5078. Yes?—I will give you the exact dates (*see* Qu. 6031).

5079. (*Sir Robert Chalmers.*) As regards the balances in London, about what amount do you think at the beginning of each quarter the Secretary of State has to pay out for dividends? Would it be practically three millions for that precise purpose?—For dividends on the guaranteed State railways?

5080. All the dividends that fall to be paid by the Secretary of State here in London. Is it about three million pounds that has to be paid at the beginning of

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each quarter?—It is a large sum, yes. I think it is approximately getting on for that.

5081. And therefore that would swallow up the whole of your balance straight away?—If there were no money coming in, yes.

5082. (Chairman.) In the case of the balance in India, do you draw your 7,000,000*l.* from a comparison of the lowest balance which they have held with safety?—Yes.

5083. Are you aware that the Government of India have from time to time carefully gone into that matter to consider what balances they should hold?—I am not aware, but I hope so.

5084. We have had it in evidence, I think, that they have examined the needs of their different treasuries, and the calls made upon them, and they have fixed their figure—which is much higher than yours; it is 12½ millions on the 31st March—with a view to the actual needs. Are you prepared to challenge their opinion from your own knowledge of what they require in district treasuries or in their headquarters treasuries?—I am not prepared to challenge it, no. I do not know what enquiry has been made or what figure has been arrived at. I have never heard of this figure of 12½ millions before. However, 12½ millions is nearer to 10 millions than the 30 millions or the 27 millions which have been held recently.

5085. It corresponds with the seven millions; it is the balance in India?—Yes. Mr. Gillan asked me the year. I will give the exact year. I cannot put my finger on it at this moment, but I will give the years, as I have all the balances taken out for 10 or 12 years.

5086. You say in paragraph 14 of Part I. of Appendix XXI. (page 554): “With regard to the 10½ crores cash balance in India, as much of this as possible should be placed at the service of the Indian money market, just as is done by Government in England.” What exactly do you mean to convey by that?—I mean to convey by that that I understand in this country the Government balance is kept at the Bank of England.

5087. And that the Indian balance should in the same way be kept with the Indian banks?—Very much more freely with the Indian banks; to a very much larger degree than at present.

5088. Contemplating as you do a much larger amount of money being left with them, do you intend that they should have its use free of interest, or do you propose that they should be charged with interest?—I think that negotiations might be entered into. I do not know why the banks should receive these favours free of charge.

5089. You intend that the banks should lend the money out again for the benefit of trade?—Yes.

5090. What sort of rate should the Government charge—bank rate, or something below bank rate?—I should only suggest that they must charge as much as they can get. It is very difficult to say what the figure would be. It would vary considerably. I heard of banks this year in the last cold weather paying as much as 7 per cent. for money, and I myself placed money with banks this cold weather at 5 per cent.

5091. When you say in your memorandum that the balances kept with the Presidency banks should be considerably increased, you do not mean on the present terms?—No, not necessarily on the present terms.

5092. You say: “The withdrawal and retention in the Government treasuries of vast sums of cash arising out of the customary collection of the Indian revenues, contributed materially to the severe seasonal tightness of the Indian money market,” paragraph 14, Part I., Appendix XXI. (page 554)?—I think so undoubtedly.

5093. That is specially the case, is it not, because the pressure on the Indian money market for trade purposes comes at the same time as the major collection of revenue?—Very much at the same time, yes.

5094. And that is unavoidable, is it not?—I am not quite certain, but I believe that the Government collect their money at this period because the crops are being sold, and there is plenty of money available, and it is a convenient time for Government to collect its revenues.

5095. (Sir Robert Chalmers.) They are mainly land revenues?—Yes, mainly land revenue.

5096. (Chairman.) But your desire would be that they should hold it as short a time as possible and return it into circulation through the banks as quickly as possible?—Yes. May I, in connection with the previous question, point out that in the explanatory statement prepared by the India Office in February last in summarising the question of the balances it concludes that “As far as can be foreseen the balance at the India Office on the 31st March 1913, will be about half what it was at the corresponding date of 1912, while there is no present probability that on the 31st March 1914 it will exceed the amount required as a safe working balance” (Cd. 6619), the clear inference being that in previous years it has exceeded the amount which is required for a safe working balance. That is the India Office’s own view of the situation.

5097. In connection with what you have said as to increased loans to the Presidency banks, do you think that there would be any advantage in the creation of a State or central bank?—I have seen proposals in the “Times” and other papers, but I have not yet been able to see what advantage to India on the whole would arise from the creation of a State bank.

5098. Would you be afraid yourself that if one central institution took the place of these three banks the needs of the different districts served by them would get less intimate attention than in the case at present?—No, I do not know why they should.

5099. As far as you are concerned you do not attach any great importance to the establishment of a central bank?—No, as far as I am able to understand the proposal which appeared in the press—of course, I do not know how far that is authoritative—it does not appear to me to hold out any advantage to India commensurate with the disadvantages and the risks and dangers.

5100. (Chairman.) We will go now to the sale in London of Council bills and transfers. I observe that you say in paragraph 2 of Part II. of Appendix XXI. (page 555) that “The first and only object of the weekly sales of Council drafts was, and should remain, the provision in London out of revenues collected in India of the sums necessary to enable the Secretary of State to meet India’s home charges”?—I think so.

5101. May I take it from that that in your opinion the Secretary of State should sell the amount required to meet his own charges and nothing more?—Yes.

5102. You are wholly opposed to his selling for the convenience of trade?—Altogether.

5103. For what reason? I assume, in putting that question, that he sells only when it is convenient to him to do so, but in excess of his needs, and that there is a trade demand for those Council bills. What is your objection to his selling them?—I think it is outside the functions of Government to undertake international finance, which is the work of a banker; that is my chief reason.

5104. If he did not sell, what would happen?—As things are at present, sovereigns would have to be shipped to India.

5105. That would be more costly?—Much more costly than the past sales of the Secretary of State.

5106. Would not sovereigns which were shipped to India at one period of the year have to be shipped back to England at another period of the year?—It is possible.

5107. At any rate, to a very large extent?—I do not think so.

5108. You think not?—I think not. I think it is possible that some gold might need to be returned at the end of the busy season, but not necessarily.

5109. (Lord Faber.) It would depend wholly, would it not, on the balance of trade between the two countries?—Entirely.

5110. (Chairman.) But taking the conditions of trade in the past few years, is it your experience that if the Secretary of State had not sold in excess of his own needs, and the difference had been met by the shipment of gold to India most of that gold would have remained in India?—I think probably recently some of the gold would have had to have been returned.

5111. If it had to be returned, then there would be a double additional charge on Indian trade?—If the

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gold had been returned there would be a charge on Indian trade, yes.

5112. (*Sir Robert Chalmers.*) Of 10s. per cent. each way?—Whatever the cost might be, wherever the gold was shipped from; I do not consider that it is any part of the functions of Government to expend the public revenues in facilitating private trading by shipping gold about at the public expense. That is my view. There is no doubt that the present procedure is economical from the trader's point of view, but it is a loss to the Government.

5113. (*Chairman.*) Under the practice which has been pursued, gold has not been shipped either way?—Gold has been shipped to and from India.

5114. There has been a certain amount of gold shipped?—Government have shipped back some gold, too.

5115. To the extent to which the Secretary of State has sold in excess of his own needs, that form of remittance has been substituted for the shipment of gold?—Yes.

5116. And to that extent, or to a proportion of that extent, the re-shipment of gold has been avoided?—To some extent the re-shipment of gold has been avoided.

5117. Has that cost India anything?—Yes.

5118. Will you tell me why and how?—Because every sale which the Secretary of State has made of rupees below gold import point is a direct loss to the Indian revenues.

5119. Then you hold that no gold should be sold below 1s. 4½d. ?—Below gold import point. It fluctuates of course.

5120. When you are speaking of the gold import point are you thinking of the point at which it pays to ship gold from London?—No, not necessarily from London; it may be from Egypt or it may be from Australia.

5121. It often is cheaper, I think, to ship either from Australia or from Egypt than from London?—Yes.

5122. But in your opinion the Secretary of State ought to hold out for some fixed minimum, ought he not?—Yes, I think so.

5123. What is that fixed minimum?—I should put the fixed minimum, so far as sales on behalf of the home charges are concerned, at a shade below gold import point. Possibly on the year that would be about 1s. 4⅛d.; sometimes it would be 1s. 4d. and 1½ annas, that is to say, 1s. 4⅜d.; sometimes it may even drop below 1s. 4⅛d.; it may sometimes approach 1s. 4⅓d.; but on the whole, on the average, I should think 1s. 4⅛d. would be a reasonable fixed rate to take.

5124. You would fix the rate at such a point as would make him certain to obtain the amount that he wanted himself?—Yes.

5125. And you would never sell below that rate?—No.

5126. Would there not be great difficulty in getting at all a level point throughout the year?—I cannot see any reason for the difficulty.

5127. I take it that the demand is much greater at one period of the year than at another?—Undoubtedly.

5128. Would the greater demand come in the second period of the year?—In the second period of the official year, yes.

5129. Supposing that, finding that the demand was slack and the rates therefore low in the first part of the year, he had offered very little, could he be quite certain that he would be able to cover that in the latter portion of the year?—I think so.

5130. We come again to your original criticism, I think, that he is unduly cautious?—Very much so in this respect.

5131. In your opinion, he might take much greater risks than he does?—I think that the process of auctioning might very well be abolished, and if there were a brass plate on the door of the India Office saying that rupees are always obtainable here at 1s. 4⅛d. on any day of the week and at any time, that would meet the case probably. Of course there are practical difficulties. The Treasury balances in India would have to be sufficient to permit of the sale of rupees in this way, but it seems to me that there is no reason why the rupees should be auctioned, or why they should not be available at all times at a fixed rate.

5132. Is not the auction a way of obtaining the best price possible?—Yes.

5133. And is it not the best way?—Not at present, because the present auctions are conducted on an incorrect minimum. They are being sold at present, for example, below 1s. 4d., which in my opinion is merely throwing money away.

5134. Supposing the Secretary refused to sell until he got a higher figure, he would not sell at all, would he?—I think he probably would.

5135. You think he is so far in the position of a monopolist that he can practically fix his own price within the limits which you have named?—Yes, I feel quite certain of that.

5136. Your criticism rests upon that assumption, that he really commands the market, and can make his own price?—Yes.

5137. (*Mr. Gillan.*) May I ask what you think would happen in a famine year?—I think that portions of the Treasury balances and of the Gold Standard Reserve would be shipped home in sovereigns.

5138. There would be no drawing of Council bills?—Possibly not. You would ship home probably some of the revenue collections in the form of sovereigns.

5139. (*Chairman.*) Have you considered what effect the fixing of a rigid rate of that kind might have on the balance of trade?—I do not think it would have any effect at all.

5140. You do not think that the course of trade is affected by the rates at which these transfers can be obtained?—Not on the whole. They may produce temporary fluctuations, but on the whole, taking the year's trade as a whole, I do not think it has the slightest effect whether you make it 1s. 3½d., 1s. 4d., or 1s. 4½d.

5141. To what length do you carry that? Supposing instead of 1s. 4d. the Secretary of State said, "I will not sell below 1s. 6d.," what then?—I think he would get 1s. 6d.

5142. Could he get 2s.?—I think so.

5143. Practically, in your opinion, the Secretary of State can fix the rupee at any value he likes, and can enforce it on the market?—Any reasonable figure. You cannot carry it to an absurdity.

5144. (*Lord Faber.*) He could not carry it to a price at which you could ship gold?—Under the existing legislation by which the sovereign is legal tender for 15 rupees he could not at present sell it at higher than 1s. 4½d., because, according to the present legislation, sovereigns are legal tender for the equivalent of 15 rupees. That would, of course, need to be altered, and the sovereign would have to be legal tender for 10 rupees if it were contemplated to force the rupee up to 2s.

5145. (*Chairman.*) But apart from that, you think he could force the rupee to any price he liked by merely refusing to sell it at a lower price?—Yes, any reasonable price.

5146. How does the experience of 1893 bear that out? I put it to you that in 1893, when the mints were closed, the Secretary of State was urged to sell no Council bills cheaper than 1s. 4d.?—Yes.

5147. His experience was that sales at that price were impracticable, but for six months he refused to sell at lower than 1s. 3½d. The maintenance for a time of this minimum converted the normally favourable balance of trade into an unfavourable one?—Temporarily.

5148. At 1s. 3½d. the Secretary of State could only sell trivial amounts of bills?—That is so, the reason being that the Secretary of State flooded India with tons of silver rupees at the time when the mints were closed, and consequently there were more rupees available than anybody wanted, and the Secretary of State had to wait for several months before any demand for more rupees arose.

5149. Meanwhile he had to borrow nine millions to make good the shortage in his receipts in this country?—Yes.

5150. Then he resumed the sales, but at a lower price?—Yes.

5151. You think there is no lesson to be learnt from that except the fact that too many rupees had been coined immediately before the closing of the mints?—Yes.

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5152. (*Sir Robert Chalmers.*) What did the exchange go to later on? Was it 1s. 0½d.?—It dropped in those days before the closing of the mints.

5153. No, I mean after 1893. It was about 1s. 0½d., was it not?—A shade below 1s. 1d., as my memory serves me.

5154. That was some time after the closing of the mints in 1893, when there was nothing special in the way of extra additions to the currency?—The year that exchange fell below 1s. 1d. was, I think, about 1894, but I am not quite certain.

5155. (*Chairman.*) Assuming that the Secretary of State adopted the policy which you suggest, the effect would be very largely to increase the shipments of gold to India?—Yes.

5156. What do you think would happen to the gold when it got there?—I think as the years went on more and more of it would pass into circulation and be used exactly as gold is used in every other country.

5157. That would be a gradual process?—Yes, a gradual process.

5158. In the meantime what would happen to the gold? I suggested to you that the major portion of it would have to be shipped back, but I think you do not agree with that?—Some of it might have to be shipped back, yes. It would depend on the balance of trade.

5159. And the rest, until gold largely increased in circulation, would be where; would it be in hoards, or would it be returned into Government treasuries, or what?—I think at first it would probably accumulate in the Paper Currency Reserve, and a certain proportion no doubt would be hoarded. I think the hoarding would diminish year by year.

5160. In subsection (b) of paragraph 5 of Part II. of Appendix XXI. (page 556) you say: "As soon as a sum equivalent to the total of the home charges had been realised, not another rupee should have been put up for auction until the proportion of sovereigns in the Indian currency had exceeded public requirements." What exactly do you mean by that? Do you mean until the Paper Currency Reserve was overloaded with sovereigns and insufficiently supplied with rupees to meet possible demands?—Yes.

5161. Has there not been rather more than enough gold in the treasuries and Paper Currency Reserve in India of late?—The rupee portion of the Paper Currency Reserve sunk to a low figure last year.

5162. Then take the reserve treasuries in India. On March 31 last there was nearly 20 millions of gold?—Yes, I believe there was.

5163. Would you consider that when 20 millions of gold had been reached the public requirement was exceeded?—No, not necessarily.

5164. Have you any measure which you could indicate to us of what figure the public does require?—I think the measure is the demands of the banks who are financing trade. There have been several occasions, I think, when the supply of rupees has run short, especially in Bengal, and when the banking community were calling out for more rupees. When that stage is reached it is evident that rupees are in demand.

5165. That stage never ought actually to be reached. The Government of India ought to foresee the difficulty before it arises and always have rupees enough?—Yes, I think so.

5166. They must act in prevision of such a demand and not merely coin rupees after it is found that they cannot supply them?—Yes, I think so, although I believe the usual practice in this country is for the banks to make demands for token coinage, and when the banks make demand then the mint authorities coin the small change and issue it. In the same way, when the banks make demands for rupees in India then the Government might issue rupees.

5167. The position is not quite the same in India?—Not quite the same.

5168. Because you do not have an institution like the Bank of England?—It is not quite the same, but it is very much the same.

5169. When there is as much as 19 millions of gold in the reserves in India and in the treasuries is not your condition met that the proportion of sover-

eigns in the Indian currency has exceeded public requirements?—Not necessarily. There is no reason why the entire Gold Standard Reserve should not be held in sovereigns, and very nearly the whole of the Paper Currency Reserve held in sovereigns, and nearly the whole of the balance in the Government treasuries held in sovereigns; there is no reason why the entire currency should not be sovereigns.

5170. We are talking of the public requirements for sovereigns?—Yes.

5171. I am not now talking of the Gold Standard Reserve or the Paper Currency Reserve, but if the number of sovereigns or the amount of gold in the Treasury stands at a very high figure, is not that because the public has paid in sovereigns and not drawn them out?—Not necessarily. It may indicate that the public are using sovereigns as currency and that Government revenue is collected in sovereigns, and that the trade of the country is carried on by means of sovereigns. It does not necessarily mean that there are too many sovereigns, or that the proportion of sovereigns in the currency is unduly large; it does not necessarily mean that.

5172. What do you mean by saying that the Government should sell no more bills until the proportion of sovereigns in the Indian currency has exceeded public requirements?—I mean until the banks and the public are demanding more rupees.

5173. Until the Government are unable to supply the demand for rupees?—Yes.

5174. And short of that point arising you would go on accumulating gold?—Yes. May I correct paragraph 5, sub-clause (c), of Part II. of Appendix XXI. (page 556)? The last portion of the paragraph reads: "but not at a lower rate than specie point for gold imports—then 1s. 4⅓d." I should like to make it read "then about 1s. 4⅓d.," because, of course, the gold point was not a fixture, and I do not mean to imply that that figure indicates a fixed figure. It is an approximate figure.

5175. I am coming now to your conclusions in this section, paragraph 7. You say that it is only by the means which you have proposed that the India Office's noxious interference with the foreign exchanges, imports of gold, local discounts and general price levels can be checked. As regards foreign exchanges, the object of the Government of India, I suppose you would agree, has been to maintain the exchange at a stable point, as stable as they could?—Up to a certain point, yes. This policy has not been carried sufficiently far.

5176. Then your objection is not to the object, but you say that they have not carried out the object out effectively?—They have not carried it out to its conclusion, that is to say, they have not secured the highest obtainable rate for the rupees which they are selling.

5177. Is it your opinion that it is India's interest to have a stable exchange?—Yes.

5178. Has that been secured by the system which has been adopted?—Speaking generally, yes.

5179. Could it have been secured in any other way except by large gold imports?—I do not quite follow.

5180. Suppose the Secretary of State had not sold Council drafts to the extent to which he has, the exchange would only have been maintained by the export of gold?—Yes, and always at gold point. We should not have had exchange down below 1s. 4d. or at 1s. 4⅓d.; we should have had exchange regularly and steadily in the neighbourhood of 1s. 4⅓d.

5181. And that, I think you have already said to me, would be more costly to the Indian trade than the present system?—No, not costly to Indian trade as a whole.

5182. But more costly to the people who had to make the remittances?—It would be temporarily to those people who are interested in the import trade of India an advantage to get as high a rate of exchange as they could, but it is only a temporary advantage. It is not a permanent advantage. It is an advantage from day to day and week to week. If I am a Manchester importer, for example, it is an advantage to me week by week to get as high a rate of exchange as I can, and if I am an exporter of produce from India then it is an advantage to me week by week to get as low a rate of exchange as I can; but that is not a

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permanent advantage or a permanent loss to India. It is only a temporary matter from week to week or from month to month.

5183. On the general balance the advantage of the community is to have a stable exchange?—Yes, a stable exchange. I do not think it makes any difference to India whether it is stable at 1s. 3d., 1s. 3½d., 1s. 4d., or 1s. 4½d., so long as there is a fixed exchange.

5184. You have said quite clearly, and very reasonably from one point of view, that you do not think it is the business of the Government to be managing the foreign exchange?—Not at all; it is most objectionable.

5185. Do you, apart from that, make any criticism of the action of the Secretary of State? I think you do, but I want to get it quite clearly?—In regard to the sale of Council drafts?

5186. Yes?—My only objection in this connection is that the Secretary of State is making a rate of exchange.

5187. And that he is not making it as good for himself as he might?—That is exactly the case.*

5188. (Lord Faber.) I only want to ask you a very few questions. We have heard a good deal about the big balances at home; and, granted that they are too big, I suppose you think that that is more a question of expediency than a question of principle? It depends, in fact, upon the failure of the monsoon, or two monsoons running, or upon the inability of the Government to pay for material for railways which had been contracted for but which had not been delivered, and, therefore, the balance has swelled in that way. You would agree that it is more a question of expediency and not of principle; it is not a big question in itself?—I am not quite sure whether I

NOTE BY MR. WEBB.

* The following extracts from the press in India with regard to the Secretary of State's sale of India (Office) Council bills on the 12th February 1913 speak for themselves:—

1. "As was to be expected, in view of the happenings in the local money market, there was on Wednesday a slacker demand for Councils, with a consequent decline in the minimum rate, at which these were let go, to 1s. 4d. for bills, and 1s. 4½d. for telegraphic transfers, tenderers at these rates receiving seven per cent. of their requirements. The total taken in bills was Rs. 15,10,000, and in T. T. Rs. 84,90,000 and Rs. 100 lakhs will be again on offer next week. The two matters for comment in this allotment are the heavy proportion of T. T., Calcutta alone taking Rs. 44½ lakhs in view of the comparative surplus of money here, and the fact that the Secretary of State continues to keep his offerings at Rs. 100 lakhs, in view of the diminishing rate."—Calcutta commercial correspondent in the "Pioneer" of 17 February 1913.

2. "The Secretary of State has sold 100 lakhs at the periodical bidding on Wednesday of which 85 lakhs were allotted in telegraphic transfers. The India Office has accepted one thirty-second less and has not reduced the amount of Council bills, which seems to cause some irritation among Exchange banks."—"Times of India" (Bombay), 15th February 1913.

The probable explanation of the Secretary of State's action in thus artificially depressing exchange, is given in the following letter of the 13th February 1913, to the "Sind Gazette" (Karachi):—

3. "May I point out to your readers that the Secretary of State for India has now stopped the further importation of sovereigns into India by the simple expedient of artificially forcing down exchange. Yesterday the India Office sold 15 lakhs of rupees deliverable in Calcutta at 1s. 4d. each. Of course, nobody can afford to import into India sovereigns which will only command Rs. 15 each in India, when, by giving those sovereigns to the Secretary of State for India in London, fifteen rupees can be obtained from the Treasury at Calcutta on Bombay or Madras."

The Secretary of State has not the slightest need for these extra sovereigns in London. Indeed he holds over 30,000,000 of India's money there already. But by this simple device of selling legal-tender rupee tokens at below gold import point, he prevents India from receiving in gold the sums that are due to her in payment of the balance of trade in her favour.

Here we have yet another example of how the India Office manipulates India's exchange and currency, not—let it be carefully noted—for the benefit of India, but solely for the benefit of a section of the London money market.

It is exactly the same trick that used to be played centuries ago to prevent this or that country from getting the precious metal. That the India Office should, in this twentieth century, stoop to a repetition of the practices of the Middle Ages in this connection is a striking comment upon the way in which modern London thinks it is able to govern modern India. The India Office is making a sad mistake.

follow the drift of the question. My view is that there ought to be no big balances, but if there are big balances they ought to be used in India and not in England; they ought to be used first in India rather than in England. If by unavoidable circumstances large balances are accumulated in England, then they must, of course, be used in the best possible way. In those particular instances I do not think that those balances have been even used in the best possible way, because they have been used for short-period loans rather than for long-period loans.

5189. Would you change the date of the budget? It would enable the Chancellor of the Exchequer in India, so to speak, to budget nearer the mark if the budget was made after the monsoon?—I do not think so. I think the monsoon has got to come into every year, whether it comes early or comes late.

5190. Yes; but in one case, as I understand it—I may be wrong—you budget before the monsoon, and in the other you budget after?—The object of the budget is always to prepare a statement for the year to follow. It is an estimate of your financial arrangements for the year to come, and, whether you make that forward estimate in the month of March or in the month of September, in either case you would have the monsoon coming into the 12 months, and it would be equally uncertain, because you would be calculating for the coming monsoon of the next year.

5191. (Chairman.) If your financial year began on October 1, would not the Finance Department know much more of the prospects of the year than when it began on April 1?—They would know no more about the year to come, but they would have a very much better idea of the year which had just passed.

5192. But would not they have of the year to come? Would not they by the month of October know what the results of the one monsoon had been, which was the more important one?—Yes, in that respect they would know what closing balance they would be likely to have.

5193. (Lord Faber.) They would know whether India was likely to be prosperous in the coming year owing to a good monsoon having passed?—Yes.

5194. Are you aware, touching the question of the big balances again, that for the first time for a good many years certainly India is not raising this year any loans at all? They are going to take it out of the budget balances—I am very glad to hear it.

5195. As you know, they borrow generally four or five millions a year at home?—Yes.

5196. They have not done so this year; it is coming out of the balances; or, at least, so we are informed?—That is a policy which I think should have been adopted some time ago.

5197. Do you think that if the Secretary of State in London lent for longer than five weeks, say for three months, he would get materially better terms, bearing in mind the great factor that the Secretary of State only lends on very first-class floaters in London? What I mean is this: Given that the Secretary of State wants this particular kind of security, would he ever be able to get much better rates than he does now for three or five weeks' money? Is it not rather the class of security that makes the loan so difficult to put out?—I think a long-period loan must of necessity command a better rate than a three weeks' loan, no matter what the security is. It stands to reason that you can make better use of money which is in your hands for three months than you can of money which is in your hands for three weeks. How much greater the advantage would be is a matter which I am not sufficiently expert to give an opinion on, but you would get an advantage undoubtedly.

5198. At the moment, as the Chairman says to me, perhaps you would pay more for the three weeks' loan than you would for the three months' loan?—That is possible.

5199. Taking it for granted that part of the big balance should be lent in India, would you tell us what your own mind is about the possibility of lending it—on security, of course? I think you perhaps agree that security should be demanded in all cases; if not, I should like to hear your reasons for not demanding it; but, granting that, do you think you could lend out

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these big balances which are sometimes lent out on behalf of India in this big market of London?—I do not think it could be done with the same ease with which it can be done in this country, but, bearing in mind that my view is that the large balances ought not to exist, I think there would be no difficulty in disposing of the small balances which might lie accumulated in the Government treasuries.

5200. Do you think that when the Indian Government is lending out money in India they should lend by tender? It is rather a good principle, is it not?—I should think so. I think it is a good principle, yes.

5201. One more question which interests me very much, the exchange question. I gather that you only want the Government to sell enough bills to give them the money which they require for home charges?—Yes.

5202. You do not want them after that to interfere in the trade of India at all; you want the trade balance between the two countries to be regulated by gold exported or imported as the balance of trade may demand?—Yes.

5203. As, in fact, is done now between other civilised countries, such as America and England, and England and Paris?—Yes.

5204. (*Sir Robert Chalmers.*) As to a State bank, do you think there is any organic demand for a State bank in India?—No.

5205. One other question on a matter which was touched on in your examination-in-chief, and that is the paper currency. I am referring to paragraph 12 of Part I. of Appendix XXI. (page 553). Do you really contemplate enlarging the paper currency without either metal or securities behind the additional notes?—No.

5206. What do you propose to do?—With regard to the paper currency, to continue as at present.

5207. In answer to the Chairman, I gathered that you said that in time of stringency or difficulty you would set the printing press to work and you would print notes, putting into the reserve neither securities nor metal?—In periods of grave national emergency, yes.

5208. You would?—In periods of grave national emergency.

5209. But that paragraph of your memorandum on the subject of paper currency proposes that you should have your normal balances reduced to your 10 millions in view of the fact that you have got a certain reserve in hand for paper currency?—Yes.

5210. Is that reserve, in whatever form it is held behind the notes, too big, in your judgment?—The metallic proportion of the reserve?

5211. Metallic or securities. I am not entering into the proportion, but do you think that the total reserve is too big at present?—Not at all. The total reserve is exactly the same as the amount of the note issue.

5212. You would be prepared, then, to reduce that, and to reduce your Treasury balances, because you could draw away from behind the notes something, metal or securities, which is there?—In case of emergency, yes.

5213. But you would be doing that on a normal basis, would you not, according to that paragraph; you would be calculating on normal circumstances and reducing your Treasury balances?—Yes.

5214. Do you think that is quite sound and safe?—For the Government of India, yes.

5215. You would, therefore, *ex hypothesi*, be reducing the security behind the notes as they stand to-day?—Yes.

5216. And you would be doing that in normal times?—Yes.

5217. Coming to paragraph 3 of Part I. of Appendix XXI. (page 550), would you be so good as to turn to the figures which Mr. Abrahams put in, of which you have a copy, I think. It is Appendix No. II. Will you look at page 81 of that?—That is Statement E.

5218. That is the one. Do you see the totals for the four years in the last column but one; that is what I am going to ask you questions on?—Yes.

5219. You point out that nearly 20 millions more than was actually necessary in four years has been

collected, and you put that down to heavy taxation?—Yes.

5220. Is that quite supported by that page in the returns at which you are looking? Under the heading of "Net Revenue" you will see that the third item is "Taxation," which accounts for just over two millions of the 20 millions for the four years?—Yes.

5221. Therefore, strictly speaking, the taxation has resulted only in two millions of the total amount of 20 millions to which you referred in that paragraph of your memorandum; that is so, is it not?—Yes, that would appear to be so.

5222. And the great factors in making up the 20 millions are "Opium, 7,310,457l.," and "Commercial undertakings (including railways)," which is over 7½ million pounds?—Yes.

5223. Those big items are not taxation; there is an amount of about 15 millions out of the 20 millions that does not come from taxation?—Yes.

5224. Who do you think paid the extra amount on the opium, amounting to 7,310,457l.? Did the ryot or the inhabitants of India pay it?—Yes.

5225. Do you think so?—Yes.

5226. Do you think the incidence was on anybody in India?—No, not the ultimate incidence.

5227. Is it not a question of price? Was it not paid for by the Chinaman?—Yes.

5228. So that that was not a burden on the people of India?—No.

5229. Taking the commercial undertakings, including railways, which resulted in an excess amounting to 7½ millions, that is mainly railways, as I think we quite agree?—Yes.

5230. How would that result? Is not that mainly between the ports—the produce going out and imports coming in?—Goods traffic and passenger traffic. The passenger traffic was a very large proportion, in fact, it is the major proportion, of the Indian revenue from railways.

5231. You would put this down to passengers and not to goods, would you?—No, it is probably, in the main, goods, I should think.

5232. It would be, in fact, prosperous trade in and out?—Yes, I should think so.

5233. Therefore, would you quite hold that the 20 millions represents over-taxation of India, if you look at it in detailed examination, even to this extent?—No, it would appear that the whole of the 20 millions is not altogether over-taxation.

5234. That is all I meant?—A large proportion of it is not over-taxation; it is revenue collected in excess of expenditure. That is how it is described in my note, "Revenue collected in excess of actual expenditure." Those are the words.

5235. The excess of expenditure arose not specifically from what is called taxation?—Only a proportion of it.

5236. And that proportion about 10 per cent. of your 20 millions?—A small proportion, yes.

5237. Will you turn to Appendix II., Statement B, on pages 74–5?—Yes.

5238. Taking the total closing balance in the Budget for 1913–4, that stands at 16,639,100l., does it not?—Yes.

5239. That is a reduction from the actual closing balance of 1912–3 of about 11 millions?—Yes.

5240. Similarly, going back a year further, there is a reduction from 30,669,702l. to 19,589,871l.?—Yes.

5241. And in the year before a reduction from 30 million pounds odd to about 21½ millions?—Yes.

5242. And in the first of the three or four years you have taken there is a reduction from 25,074,522l. to 17,735,242l.?—Yes.

5243. Those figures indicate a very definite desire on the part of the Government of India to reduce their balances—to use their balances in some form or other. They have actually reduced their balances by very substantial amounts throughout the period of four years; is not that so?—It appears, as far as I am able to see by the figures, that each year the Government have estimated a smaller balance, but actually they collected a much larger one.

5244. I quite agree, but having collected the still larger one, they sought with great anxiety always in

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[Continued.]

the next year to reduce their balances and not to keep them so high as they have grown to be, as a matter of fact?—So the figures seem to indicate.

5245. What use do you suppose they have made of those sums which they took out of their (as you say) inflated balances? What use did they actually make of these moneys? May I suggest the answer? Will you turn to Statement A in Appendix II., page 72, which deals with the receipts, disbursements, and balances for the year 1912-3. If you will look under the head of "B. Receipts," you will observe "Loans issued, 5,000,000L.," that is item 3?—Yes.

5246. Now will you look under "C disbursements." You will see the item "Capital outlay on railways, irrigation works, and Delhi."—Yes.

5247. That is over 11½ millions, is it not?—Yes.

5248. The next item is called "Discharge of debt," and it is 6½ millions?—Yes.

5249. Adding those two items 9 and 10 together, they amount to 18 millions?—Yes.

5250. That is capital outlay in discharge of debt. We began with the figure "loans issued," which is five millions; consequently, there was 13 millions that had been expended which had possibly, would you say, come out of balances?—It appears on the face of it that nearly 12 million pounds was expended in 1912-3 on railways, irrigation works, Delhi, and discharge of debt.

5251. Over and above the amount of loans issued?—Yes.

5252. Now turning back to the page before, page 71, for the year 1911-2, we have a similar sum net over and above the loans issued, amounting to about eight millions. I arrive at that like this: Do you see item 3 "Loans issued, 4,188,400L.?"—Yes.

5253. Then I come down to items 9 and 10, and I add those together, and make them about 12 million pounds, which makes a difference of about 8 million pounds?—Yes, so it appears.

5254. For the year 1910-1 you find a similar balance of about seven millions; you can take that from me. For the purposes of that question I take items 3 and 3A together?—That is six million pounds odd of loans, and about 13 million pounds of expenditure.

5255. That leaves about seven millions; that would show that there has been great expenditure, and that the expenditure must have come from some place other than revenue or capital?—Yes.

5256. And the expenditure with which we have been dealing is net over and above the loans issued?—Yes.

5257. In a previous question I drew attention to the steady amount by which the (as you would say) inflated balances had been reduced?—Yes.

5258. They have in fact been applied to capital purposes or the discharge of debt?—Some portions, yes.

5259. To the extent which we have mentioned?—Yes, apparently.

5260. And that sort of purpose is one that commands your approval?—Yes, certainly.

5261. Coming to Part II. of your memorandum (page 554), is the Government of India in the ultimate analysis in a different position from any individual who has money to get?—No.

5262. What does an ordinary individual do having to remit money from India to England? Does he stand out for 1s. 4½d.?—Do you mean an ordinary individual?

5263. Yes?—It is no use standing out for it, because the Secretary of State undersells him every time. There is no reason why he should not get 1s. 4½d. except for the Secretary of State.

5264. You think that the Secretary of State is in such a very strong position as to be able to dominate everything?—I do.

5265. Is the exchange of India essentially on a different footing from, we will say, the exchange between London and Paris?—No.

5266. Dealing with France, taking the par of exchange which we have agreed to be equal to 25 francs 22 centimes, do you think that an individual or a big corporation should always stand out for something over that parity?—No. The circumstances are not the same, though, because as a rule the balance of

trade is very much in India's favour, and consequently India, as a rule, has large sums which have to be remitted to India. As things stand at present there is no way of remitting those sums except by either shipping gold or purchasing the Secretary of State's Council drafts. If you ship gold, the exchange stands at 1s. 4½d. or 1s. 4¼d., and there it would nearly always remain were it not that the Secretary of State comes in and sells rupees at 1s. 3½d. for no reason whatever.

5267. Have you any support in any country of the world that you can point to for your departure from the general doctrine of exchange?—To what doctrine do you refer?

5268. The doctrine that you should be prepared to get your money across at your own time within specie point; that is the general doctrine. Why should India depart from it?—There is no reason why India should depart from it. If India were worked at specie point the public would have to effect their remittances at specie point.

5269. What do you mean by specie point? Do you mean a bit below and a bit above 1s. 4d.?—By specie point I mean the point equivalent to the cost of importing sovereigns into India. That is what I call specie point.

5270. That would answer to 25 francs 33 centimes in Paris?—Possibly.

5271. Would you say that a person similarly positioned, dealing in that exchange, should refuse to deal except at 25 francs 33 centimes?—No, because I do not know that the balance of trade is regularly largely in favour of Paris as between London and Paris, but in the case of India the balance of trade is largely, as a rule, in favour of India. It is largely in the one direction in the case of India, and therefore exchange generally, without the interference of the Secretary of State, would always remain in the neighbourhood of 1s. 4¼d. until such time as a change occurred and the balance of trade was turned in the opposite direction.

5272. Would you expect to be able to get the rate that you favour at all seasons in the year?—Yes.

5273. That is your belief?—Yes.

5274. (Chairman.) You mean whatever amounts the Secretary of State might require at any season of the year?—Yes.

5275. (Sir Ernest Cable.) Throughout your evidence you evidently have been in favour of budgeting more closely?—Yes.

5276. That would involve, would it not, more borrowing by the Government of India for reproductive public works; he would have to borrow more?—As compared with the recent procedure, yes.

5277. With reference to that, do you think they could borrow more in India than they do now?—Yes.

5278. At the present rate of interest?—Yes, I think so.

5279. You would not think it necessary that they should increase the interest?—I do not think so. I think there is more capital available in India than is popularly supposed.

5280. And you think it would come out in larger quantities if required?—I think so, especially if the rupee paper could be used as security for advances from the Government in times of heavy trade pressure. If holders of rupee paper could always utilise that paper to obtain loans from the Government in the busy season of the year I think there would be greater scope and greater demand for rupee paper than there is at present.

5281. In your evidence regarding lending out the Government balances you advocated lending not only to the Presidency banks and the exchange banks, but also to firms?—Yes.

5282. Of course, there are first class firms and second class firms. You would not suggest lending to any firm?—Oh dear, no, certainly not.

5283. Would it not be rather an invidious task for the Government to discriminate between firms?—It is a task that the India Office seems to have carried out most successfully. There are 72 favoured borrowers on the India Office list in the City of London, and I do

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not know why there should not be 72 favoured borrowers on the Government of India list in India. I think I could make a larger list than 72.

5284. Then you went on to say that you thought there would be very large opportunities in India for utilising this capital. Do you wish to include in the purposes for which this capital is to be used, expenditure on local industrial enterprises, or merely on financing crops?—Mainly I have in my mind the financing of crops.

5285. You would not suggest that the money borrowed from Government should be utilised for other enterprise?—Not in private enterprises, no. There are many occasions when improvement trusts and port trusts and municipalities require large sums of money which the Government might place at their disposal if they felt that it was beneficial.

5286. I gathered that you were rather against a State bank?—I am unable to find that the advantages outweigh the disadvantages to India.

5287. I was only going to ask you whether any State bank, which would be looked upon by the masses as a Government bank, would not have the effect on the populace of bringing out hoards on deposit?—It might conceivably do so, yes.

5288. That was one of the things that occurred to me?—The public have an opportunity now of taking advantage of the Post Office Savings Bank in India, and I think the figures show that the Post Office Savings Bank is being used more and more every year. I recognise that it is an argument in favour of the State Bank that it might help to attract deposits from nervous depositors; that is an argument in favour of a State bank, and a sound argument, I think.

5289. (Mr. Gladstone.) I gather that you do not think that there would be very extensive opportunities of lending money in India, but that if the Government balances were considerably reduced the sums which would be available would be very moderate?—Yes.

5290. And such as the market would take?—Yes.

5291. With regard to your suggestion that loans should not be limited to the Presidency Banks, we have had it in evidence from the Exchange Banks that they would prefer that the loans should be limited to the Presidency Banks. They would not care to take the loans themselves?—That is a matter in which the Exchange Banks know their business better than I do.

5292. We have had that in evidence. Then if the Government are to look to private individuals to take these loans, would it not be very advisable for them from time to time to issue a moderate amount of short fixed term bearer bonds which would be convenient security with the smallest possible fluctuation?—Yes, I think such an issue might be very useful.

5293. That would be a security which would be popular with private individuals, and which they would be willing to hold throughout the year, and to utilise for loans in exceptional cases?—Yes, I think that would be very useful.

5294. There is obviously an objection to holding rupee paper, which may be expected to fluctuate with market conditions, not, perhaps, to the same extent as Consols do here, but in a smaller way?—Yes, I think such an issue would be very useful.

5295. With reference to paragraph 15 of Part I. of Appendix XXI. (page 554), sub-paragraphs (a) and (b), have you considered the system followed in regard to the purchase of stores at the India Office for railways and other things?—I know the system; I have some knowledge of the system.

5296. A very large amount of money is involved?—Yes.

5297. And this has to be taken into account in fixing the amount of the balances in London?—Yes.

5298. If railway and other Government stores were purchased and paid for in India, the amount of the Home Government balances might be *pro tanto* reduced?—Yes.

5299. You see no objections to this course being followed?—If for many years the India Office was able to work with a balance of four millions I see no reason why they should not still be able to work with a similar balance, and not require 15 or 18 millions.

5300. My point is that if they had not to purchase those large amounts of railway and other stores and pay for them, that would be put upon the Government of India, who would pay in India in rupees, and to that extent, of course, the balances here might be reduced?—Yes, certainly.

5301. Which policy, I understand, you favour?—Yes, certainly.

5302. I understand your view is that there is no reason why the Secretary of State should do for the Indian trade by excess sales of Council bills what no other Government does for traders?—Quite so.

5303. But is there any other country in the same position as India and England?—Not exactly, no.

5304. Is it your view that the movement of the crops might be left to banks and to traders just the same as it is in the Argentine and Egypt?—Yes, I think so.

5305. But do you think it is possible for the Government to avoid the great responsibility which they now carry in regard to maintaining the Gold Standard Reserve and other matters? Is it possible for them to leave that entirely to what I may call private enterprise?—I think that as soon as a little more gold has flowed into India there will be no necessity for the Government to have anything to do with it. I think the gold standard will be maintained in exactly the same way as it is maintained in every other country, without Government assistance at all. I think that as soon as there is a little more gold in the country there will be no necessity for a Gold Standard Reserve or for anybody to think or trouble or worry about exchange—not the slightest. There will be sufficient gold in the country to provide for export whenever the trade balance turns against India, and in that case there is nothing whatever for the Government to worry about as to foreign exchange or maintaining even the standard.

5306. But during the interval during which that happy state of things is being brought to pass, Government must maintain their responsibility and control?—Yes, I think so.

5307. Therefore, you do not really think that the conditions are the same as in Canada, for instance?—Not yet.

5308. You hope they may be?—They will be, I feel sure, in a very few years. My own view is that they would have been so 10 years ago had it not been that the gold standard policy has not been carried out. There was a Committee which sat in 1896 which reported exactly what should have been done. Had the Fowler Committee's policy been carried out there and then on the spot, the gold currency and standard might have been effectively established many years ago. That is my view.

5309. I think with regard to the balances your view is that a total of 10 millions as a minimum balance is sufficient, of which seven millions should be held in India and three millions in London?—I said so.

5310. And I think you said you based those figures upon some actual returns for a particular year which you would let us have?—Yes.

5311. I believe Sir James Westland—I suppose it is 15 or 20 years ago—fixed upon 8 crores as the minimum balance in India?—I do not know.

5312. That, of course, has not been worked to, because it is said, and truly, that India has developed enormously, the number of treasuries has greatly increased, and the trade of the country, and so on, and therefore that is a figure that has been treated as obsolete. You do not hold that view?—I do not know at all. I did not know that that figure had been fixed on or discussed at all. I was not aware of that fact.

5313. Do you think that in the management of treasuries, sub-treasuries, and district treasuries the Government do not take sufficiently into account the modern improvements in railway facilities and telegrams, and so on?—I have not gathered any impression that the treasuries are badly managed.

5314. But I gather that your view is that the balances are too large?—Yes; it is very much easier now by means of telegrams and railways to shift money from treasury to treasury than it was fifty years ago.

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5315. You have not yourself made any careful examination of those treasuries—the daily transactions and the maximum and minimum balances which they

hold?—Not any further than is revealed in the Paper Currency Reports, which I have frequently read and studied.

The witness withdrew.

At the India Office, Whitehall, S.W.

THIRTEENTH DAY.

Friday, 11th July 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Lord KILBRACKEN, G.C.B.
Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.

Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

The Hon. MONTAGU DE P. WEBB, C.I.E., recalled and further examined.

5316. (*Sir Shapurji Broacha*.) The recommendations of the Indian Currency Committee made 14 years ago, which were accepted by the Secretary of State and the Government of India in 1899, should now, you consider, be carried out in their entirety?—Yes.

5317. I think you have changed your opinions very much in the last 14 years?—Yes, very much.

5318. Do you wish that the recommendations of the Fowler Committee should be treated as sacrosanct in 1913, although that is not what you thought in 1898?—I have changed my opinion since 1898, for very good reasons I may add.

5319. The members of that Committee were human like yourself; should we not therefore now be guided by the light of experience? That was the greatest experiment of all ages, and we have stumbled badly in many places; but we have now the light of experience in other countries, and we have the experience of what has happened in India. May we not, therefore, suppose that it is necessary to have a change in some respects?—Certainly, if it is proved necessary.

5320. Then, of course, the report of the Fowler Committee is not sacrosanct?—In my opinion the recommendations are sound.

5321. The Committee was composed of human beings like yourself?—In my opinion, events have proved that the recommendations of the Committee were sound and correct.

5322. They are sound in your opinion now?—Yes, because the production of gold has, since that period, so very enormously increased. That is why I have changed my opinion.

5323. You say in the four years, 1910, 1911, 1912 and 1913, there has been an excess of 20 millions over the budget estimates; is that not so?—Yes, there has been an excess of revenue collected of 20 millions.

5324. You said that though you heard Sir Robert Chalmers state that of that amount about 14 millions were non-recurring windfalls, and after knowing that not only will one of the windfalls, opium, as a wind-fall wholly disappear, but even any revenue from opium is likely to disappear, as I presume you will admit?—It looks like it.

5325. Should you not therefore deduct the 14 millions from the 20 millions, thus leaving only six millions of excess revenue?—I cannot say from memory how much of the 20 millions represents collections from opium sales.

5326. Do you think a million and a half of excess revenue per year in a progressive country of 320 million inhabitants who are increasing in prosperity by leaps and bounds is a great excess?—No.

5327. I think it means a very closely made budget, for which whoever made it deserves great credit?—In spite of the warnings of the time about the opium revenue? I think at the time the extra silver taxation, &c., was put on, it was pointed out very clearly to the Government of India that the opium revenue would increase in the immediate future and not diminish.

5328. You speak about the silver taxation, but I think that has been a blessing in disguise, because it has raised the accumulations by 11 per cent.?—I cannot speak to the percentage from memory.

5329. It has enriched the Indian people to that extent?—I do not regard the extraction of taxation in order to accumulate money in the Government treasuries as a way of enriching the people.

5330. You say that India has for some years been unnecessarily heavily taxed, and that the budgets have not been framed to correct this over-taxation. Is not India the lightest taxed country in the world? Could you name a country that is more lightly taxed than India is at present?—It depends on the way in which the problem is regarded.

5331. What it depends on is the income of the country, is it not?—If the taxation is regarded in reference to individual incomes, I should think India was heavily taxed; but if the amount of revenue extracted from a country of that size is only taken into consideration, then the country is lightly taxed.

5332. Japan resembles us in wages, and Japan, of course, is not a very rich country. The taxation in Japan per head is 17 rupees, and the taxation per head in India is 3½ rupees; what do you say to that?—I am not surprised, in view of the recent Russo-Japanese war.

5333. Then why should you say that India is heavily taxed? It is not a heavily taxed country at all. Take, for instance, the taxation in Egypt, which you might call a poor country; there it is 21 rupees per head. In Turkey even it is 14 rupees per head. You have asserted that more money had been collected in India than was necessary?—Than was necessary for the purpose of meeting expenditure.

5334. Yet India has a fifth of the taxation of Japan, a fourth of the taxation of Turkey, and a sixth of the taxation of Egypt, per head of population; do you accept those figures?—I think it is quite possible.

5335. I think you must confess that there is not a country so lightly taxed as India is; if you do not admit it, show me one. You are a public writer, and you know Indians have taken up your cries, and I want you to prove that cry that India, compared with any other country in the world, is heavily taxed?—I do not

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[Continued.]

think that is relevant to the assertion which I make in my note.

5336. Talking of taxation, you must say that India is the most lightly taxed country in the world, must you not?—I think for its size that is probably correct, although India is also the poorest country in the world per head of population.

5337. It is just as poor as Japan, and the wages of both countries are the same?—I do not regard low wages as a test of prosperity.

5338. Compared with any country in the position of India, India is the most lightly taxed country of the world?—Per head of population; and, as I say, it is also the poorest country in the world, per head of population.

5339. I compare India to a country that is equal to India in many respects, and that country is Japan; next comes Turkey, then Egypt, then Russia. We are only taxed one-fourth of what they are taxed, or one-sixth, or one-seventh, or one-tenth. I have taken here the poorest countries, so I think it must be admitted that India is a very lightly taxed country?—Undoubtedly it is per head of population, and, as I have said more than once, it is also the poorest country in the world per head of population.

5340. Is it better than Japan in wages?—I do not know.

5341. Our wages and Japan's wages are the same in the mills?—I doubt it very much.

5342. Then prove it?—It is possible that the wages of mill hands in Bombay may be higher than the wages of mill hands in Japan, but India is a very great agricultural country, and I do not regard the wages of mill hands in Bombay as necessarily a test of the prosperity of the whole country.

5343. As a general proposition, we are large employers of labour in the centre of India, and we are giving 200 per cent. more wages than we were giving six years ago, or even 10 years ago, and wages have risen about 300 per cent. even in the Punjab?—Some wages have.

5344. In which part of India would you say that the wages are poorer than in Japan?—I make no such assertion.

5345. I say, taking the wages per head, and comparing everything, India is the most lightly taxed country in the world?—I think possibly it is per head of population.

5346. You say "possibly it is," but can you prove otherwise?—I have not the material at my disposal at this moment to enable me to examine the wages of all the countries of the world; but I think it is quite possible that India, per head of population, is more lightly taxed than any other country.

5347. You say in paragraph 4, Part I. of Appendix XXI. (page 550), "On the contrary, in a country "that is notoriously handicapped for want of ample "supplies of cheap capital, and where the rates of "interest and discount rise to heights unknown in "any other part of the Empire," and so on. Will you state in which other countries of the Empire except England, the rate of interest is higher than in India?—I do not know any country where it is higher than in India.

5348. I am talking of Canada, I am talking of Australia, I am talking of the West Indies, and all those places; is the rate of interest there higher than in India?—I do not think so.

5349. I can prove my point by one personal instance of yours. Though the bank rate was 8 per cent. in March or April, your firm could have borrowed at 4½ per cent. or 5 per cent. at any time during the last four or five years?—Are you referring to last March?

5350. You can take any March in the last five years. Your firm has been able to borrow for 12 months at 4½ or 5 per cent. for the working of its mills. Show me any mill in Lancashire that could borrow for 12 months at 4½ per cent.?—I cannot show you any mill in Lancashire. I do not know what they are paying for their money in Lancashire.

5351. I am talking of your firm, and I tell you they are able, all through the year, even when the bank rate is 8 per cent.—just now it is 6 per cent.—to borrow at

4½ per cent. Even when the bank rate was 6 per cent., you could have borrowed for 12 months at 4½ per cent., and there is not any other part of the Empire where you could borrow under 6, 8, 9, 10, or 11 per cent. according to the distance, whether it is Western Canada, or Eastern Canada, or Northern Canada, and so on. Do you know that the best firms in Australia pay 7 per cent. for call money?—I cannot say what the best firms in Australia pay.

5352. Then you make this statement, but you cannot prove it. You, being an Englishman, have stated, and the natives wanting a cry are taking it up, that India is the most heavily taxed country, and that the rates of interest in India are more heavy than in any other part of the Empire. I think you have made that statement without having any proof of it in your own hand?—I believe the statements which I have made in my note are correct.

5353. How are they correct? You cannot prove it?—So far as my experience goes of the rates of interest that are paid in the Colonies, I have never heard of such high rates being paid as I have known in my experience being paid in India.

5354. Give me an instance of your experience?—In which country?

5355. I am talking of the Empire. I suppose you do not mean England, but you mean Australia, or Canada, or the West Indies, or those places. Can you show me where your firm can borrow for a year at 4½ or 5 per cent.?—I do not regard my own firm's transactions as a criterion of what money can be raised by other firms.

5356. There are gentlemen and officers who pay 50 per cent., but you cannot compare them when you are talking of the rate of interest commercially. Seeing that India is so lightly taxed, and that India requires a great many public works, such as sanitation and education, for the development of India, should not the Finance Minister continue to budget a little higher rather than a little lower, in order to carry out all this work without borrowing?—If the Government of India propose to raise money by taxation for the construction of capital works, that is a policy which has a great deal to be said in its favour; but, up to the present, in preparing their budgets, the Government of India have not in their budgets stated that they are raising money for expenditure on capital works. If the taxation is so adjusted as to produce large surpluses especially to be devoted to capital works, I think there is a great deal to be said for it.

5357. If they have, as you say, budgeted for too much, then they have squandered the money; on what have they spent it?—I did not say the Government of India has squandered the money.

5358. Has the Secretary of State squandered the money?—I think the Secretary of State has not used it to the best advantage.

5359. I agree with you that money ought to have been lent in India where the rate of interest is higher. Now the Government of India have about 7 crores or 10 crores in excess of requirements in the treasuries, can they lend more than 7 crores in India?—Certainly, in present circumstances, I should think not.

5360. Then they have not been doing anything wrong in not keeping more money in India?—I hold the contrary opinion.

5361. You were stating yesterday that they should lend to the exchange banks. The Government would not lend money under 6 per cent., or something like that, so why should the exchange banks borrow from the Government of India instead of bringing that money from England, especially as you say that they could not lend more than 7 crores now under present circumstances?—I do not think they could.

5362. How should they use the 18 millions? Should they let it lie fallow in India just for the delectation of the people of India; should they hold these 18 millions there without interest?—I am not aware that the Government of India have attempted to lend 7 crores on the market, and I am not, therefore, in a position to say they could not have lent more. That was only a rough estimate on my part. Possibly

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if 7 crores had been lent to the public, 8 or 9 or 10 crores might be lent.

5363. Let me tell you—and I put my experience against yours—that the Government of India could not have lent 5 crores?—It is quite possible.

5364. Do you know that from 1893 to 1895 this country, England, lent money because they had no scope for it at five-eighths of 1 per cent. for a year?—Quite possibly.

5365. And at half of 1 per cent. for a year?—That is quite possible.

5366. They have to employ their money; and 3 per cent., if they cannot employ their money elsewhere, is six times as large as what the English banks got between 1893, after the Baring crisis, and 1896?—I certainly admit that three is six times as much as one half.

5367. That lasted for three years?—I do not know that.

5368. Of course, you must confess that they had to lend the money, or it would have been lying fallow in India?—I cannot say that the whole of it would have been lying fallow in India; some portion might.

5369. Of course, it was the policy of Government not to lend, and I think it was an unfortunate policy which has brought about all this trouble; but still I think they could not have lent more?—I would not say that until I tried how much they could have lent.

5370. All the witnesses who have preceded you, including bankers of experience, have said that they could not?—I think it is quite possible that it would be difficult to lend at 5 or 6 per cent.

5371. So I think you can say that the Secretary of State was right in lending at any rate of interest; I do not say whether he lent at the best rate or not—that is another question—but the Secretary of State was right in lending money so as to get some interest?—I think the Secretary of State would have done better to have sent it back to India and have tried to lend in India first.

5372. But he had seven crores there already?—That money was not lent out for the purposes of India.

5373. The Secretary of State could have ordered that money to be lent?—He could have done so, but he did not.

5374. Why did you take the Secretary of State's lending? Why did you not take first the Government of India's lending in India what they had in excess?—They should have done so.

5375. I say you should have done so?—If I had taken up that policy several years ago, I should certainly have argued that.

5376. They could not lend upon security more than 11 millions in this country for a long time?—I do not know about that.

5377. This is the richest country in the world, and yet at one time they could not lend more than 11 millions on security?—I noticed that the India Office could not do so.

5378. Taking the two countries together, India and this country, do you think India could have done so?—I cannot say.

5379. You are a very intelligent writer; can you not say that?—I cannot say what the Government of India might have done had they tried.

5380. I think it seems that you have made statements without giving adequate proofs?—I think I have made sufficient inquiries.

5381. You cannot give proof of that statement for one. You say the Secretary of State should not have borrowed three millions when he had so much money in hand last year?—I think he should not.

5382. Your exact words are—this is in paragraph 10, Part I. of Appendix XXI. (page 553)—“Last year, notwithstanding the vast sums of public money at the India Office's disposal, and in spite of the fact that the London money market was faced with more demands for capital than it was able conveniently to meet, an effort was made to borrow 3,000,000*l.* in London on behalf of the Government of India?”—That statement is true.

5383. Seeing that the Government of India's credit is not so good in this country as it was, were they not right, having so much to do in connection with public works and not being able to borrow in India, to borrow, when they could borrow at a good rate, as much money as they could in this country?—I do not think there was any necessity to borrow at that period.

5384. Do you know that they could not borrow to-day at the same rate?—Quite possibly.

5385. Do you know that that same 3½ per cent. stock has gone down 7 per cent. since the last borrowing?—Quite possibly.

5386. What do you do in private business?—I never borrow when I am full of money.

5387. You borrowed for your railway a year before your concession was given to you?—No, I did not borrow at all.

5388. You took money from the shareholders?—I did not borrow. I desire to put it on record that I borrowed no money, and that I did not ask the public to lend me any money in advance in connection with any of my business concerns.

5389. If money is required, you say in paragraph 12, Part I. (page 553), “I am of opinion that the Government of India's floating cash balance ought, in the interests of economy, to be kept down to a maximum of 10,000,000*l.*, of which 3,000,000*l.* might be kept in the Treasury in London, leaving the balance of 7,000,000*l.* . . . to be held in the treasuries and Presidency banks in India.” Then you say that at anything like a time of necessity they can take money from the Currency Reserve; but they would have to pass an Act for that, would they not?—Yes.

5390. They could not do it offhand?—No.

5391. The Bank Act has not been suspended since 1866, but, supposing we fall short, they would have to suspend the Act and take the money from the Currency Reserve?—Yes.

5392. Is that not a very difficult and very long way to go in order to have starvation supplies given to them?—I do not regard these figures as starvation supplies.

5393. I will give you one public instance. The Bombay Port Trust required a balance of a crore-and-a-quarter for carrying on their works, and the Secretary of State has to provide for about 12½ millions, and has to be able to supply funds for all the necessities; do you think in face of these facts that allotment would be correct?—I think it is sufficient.

5394. On what basis do you go? When a corporation like the Bombay Port Trust require a crore-and-a-quarter or thereabouts to carry on their business, do you think the Secretary of State should be put on a par with a port trust?—I think the figures I have given are large enough.

5395. Do you know that India has a debt of about 500 millions on railways and other things, for which the Government of India is responsible?—No, I do not know that.

5396. It is so?—I do not think it is so.

5397. Then will you kindly tell me what it is?—I believe the Public Debt of India is about 270 millions.

5398. Including the railway debt, for which we are responsible?—I think that is about the whole of the debt. There is about 180 millions of debt in this country, and roughly about 90 millions of debt in India.

5399. That is not all; there are the railway companies?—I cannot say from memory exactly what the railway capital comes to.

5400. I think it is 375 millions for railways alone; so we will put it in round numbers as something between 400 millions and 500 millions. You have not gone into that matter, I suppose?—As I have said, I cannot tell you from memory the capital of the railways.

5401. Do you know what the Public Debt of Russia is?—No, not without making a reference.

5402. I suppose it is 500 millions; in order to protect that debt and the interest, do you know what the Russian Government keep in gold outside Russia?—I could not tell you from memory.

5403. Sixty millions or thereabouts, and, further, to protect their commerce and other things, the Bank

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of Russia holds European bills or has in Europe 21 millions, do you know that?—I cannot speak to that from memory.

5404. It is in yesterday's "Times"; shall I read it to you?—I am perfectly prepared to take these assertions as being correct if they were in yesterday's "Times."

5405. Do you know why the Russians keep so much gold outside their country?—Because their credit is not so good as ours, I take it.

5406. Do you know that there are people in Russia who have the same cry as yourself, and that the Russian Minister defended his action by reference to the Russian foreign trade?—I am not surprised to hear it.

5407. And almost all the papers here have accepted it?—I think that policy might find a good deal of support in London.

5408. Is Indian commerce such a light thing that you would not give it every possible facility in the money markets of the world?—I have a large personal interest in Indian commerce myself, and I do not believe what I think you are suggesting is necessary.

5409. In Part II., paragraph 2, of Appendix XXI. (page 555), you say: "With the Indian mints open to the free coinage of silver, and the sterling value of the rupee depending entirely on the sterling price of silver in London and New York, no better means of paying India's sterling debts could possibly have been devised than weekly auctions in London of a portion of the stocks of rupees accumulated in the Treasuries in India in the course of the collection of the revenues by Government. The competition of the public at these weekly auctions enabled Government to secure the best possible sterling prices for such rupees as were auctioned, and the system was therefore admirable in every way." What is the difference now?—The mints are closed to silver.

5410. But up to 1872, the time when Germany demonetised silver, the ratio of 15½ of silver to 1 of gold remained fixed and constant, just as now between 1898 and 1913 the ratio of gold standard has remained fixed at 16d. of gold to 1 rupee; so I think there is no difference, and that if it was admirable then it is admirable now?—That is precisely my contention, that the circumstances have entirely changed, that there is every possible difference, that the mints being closed to silver the value of silver rupees in India is entirely divorced from its value as a marketable commodity, and that therefore there is no reason whatever to auction rupees at this moment.

5411. I think there was a very good reason then, because they could have the silver minted or sold at that ratio?—There was every reason for auctioning rupees when the mints were open, but there is no reason for auctioning when the mints are closed.

5412. Do you want the mints to be opened for the Secretary of State to commence again?—For the free coinage of silver? No, certainly not.

5413. You say the auctioning was all right?—Before 1893 it was all right.

5414. There was a ratio, and you admit that system was most admirable?—Yes, before 1893.

5415. Suppose the Secretary of State were to start now and open the mints in India, would the system be most admirable?—I do not think the Secretary of State should re-open the mints to the free coinage of silver. I think that would be undesirable.

5416. You have said somewhere that fluctuations in exchange prevent people from moving their capital to and fro between England and India as freely as they might otherwise do. What about the fluctuations of exchange between the United States and England?—They are very different.

5417. How is that?—Because the fluctuations in the case of India are liable to be affected by the action of the Secretary of State, whereas in the case of other countries the movements in exchange are not liable to be affected by official interference.

5418. What is exchange? I take exchange to be the transfer of wealth from one country to another, with the additional cost of freight, insurance, and

commission?—I do not know that I can accept that definition exactly as it is made.

5419. Will you describe how it is different from the case of France, say? Does it cost you more than it would cost between France and England, or between France and the United States, or between France and Egypt?—I can only say that the difference between the two cases is that, in the one instance, the United States or France, movements in exchange take place in response to the requirements of trade only, whereas in the case of India movements in exchange take place in response to the activities of the Secretary of State.

5420. What more would you pay than if you had to transfer your wealth from Russia to England—what more does it cost than the freight, insurance and commission?—I really cannot say.

5421. You are a merchant of great experience who has been doing a large export business, and you know that buying and selling actually depends on a difference of one-sixty-fourth?—Yes, I do know that fact.

5422. It is so?—Sometimes it is so.

5423. And that depends on the rate of interest?—Yes.

5424. Therefore, I say that was a very wide statement to make, when you tell the people of India that they are not on a gold basis, and that they cannot transfer their wealth between one country and another?—I never made any such statement that the people of India cannot transfer their wealth from one country to another.

5425. Here it is; it is an extract from one of your letters:—"State-manipulated fluctuations in exchange prevent many people from moving capital to and fro between England and India as freely as they might otherwise do." Who are the people that told you that—not the banks?—I think I understand what Sir Shapurji is driving at. What I have stated is that, owing to the interference of the Secretary of State with exchange, the public do not so readily transfer temporarily their money backwards and forwards to India as they would do if there were no Secretary of State interfering with exchange. I make that assertion from my own personal knowledge, as I am frequently engaged in moving money temporarily backwards and forwards.

5426. How is it any different to what would be the case with the United States? Would not the man in the United States be interfered with in the same way?—If I were to transfer money between this country and the United States, I should have nothing to reckon upon except the movements of commerce, which I should be able to gauge as well as anybody else; but in the case of India I have to gauge not only the movements of commerce but the eccentricities of the Secretary of State, and it is those eccentricities which prevent me from taking the risk.

5427. It is the same movement that moves exchange in India as in the United States?—No, it is not the same.

5428. Yes, it is?—I differ.

5429. Then in one of your letters you say, "In 1905-7 the Government of India coined over 40,000,000l. worth of new silver rupees, thereby stimulating and contributing to the rise in prices in India that brought so many of the poorest classes to the verge of starvation." Do you know that in 1905-6 eight millions and in 1906-7 ten millions of silver were brought into India, so that that was not a correct statement?—I understand your question to be this—that because 18 millions worth of silver was brought into India, it was not possible to manufacture 40 millions worth of rupees out of it.

5430. Yes, that is it?—I should think that with 18 millions sterling worth of silver it would be possible to coin very nearly 40 millions worth of rupees, because the value of the rupee in metal is only about 9d. or 10d.

5431. It was 18 millions brought in, and what they turned out in rupees was 40 millions?—I think both figures are probably correct.

5432. (Chairman.) What you meant was a face value of 40 millions?—Yes. Possibly the 18 millions of silver is taken at its market value.

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5433. (*Sir Shapurji Broacha.*) Out of those 40 millions, 13 millions would go to the Gold Reserve?—Some proportion would.

5434. Do you think that contributed to the rise of prices?—Yes.

5435. All the commodities that grow in India are exported, and it is the export price, that is, what the exporter is willing to pay, that makes the price?—I cannot acquiesce altogether in that suggestion.

5436. I can aid you in that. When there were no railways wheat was used in the Punjab as fodder when there was an excess of supply and they could not use it for food; but to-day the man in Germany who buys Indian wheat pays more for it than the Indian people do, because he has to pay freight, insurance, commission, tariffs, and all that sort of thing; so India has the advantage in price over the countries which buy Indian produce. How can you say, therefore, that prices are made by excess of currency, or redundancy of currency?—I think excess of currency does affect prices.

5437. But not in India, because the prices are made by foreign buyers?—I think any excess of currency affects prices in India.

5438. Will you tell me how it affects prices? If Germany wants to buy your wheat at six rupees, and you say Germany shall not buy it at six rupees; why do you not put tariffs on the export?—I do not favour a tariff on exports.

5439. I think you are wrong in your statement that excess of currency contributes to the rise of prices?—I hold the contrary opinion.

5440. When do you say there was a great redundancy of currency in India, taking any period you like to name from 1898 or 1899 up to 1913?—I think the silver currency was redundant about 1893, 1894 and 1895, and I think the silver currency was also redundant about 1906 and 1907.

5441. That brings me to another point you made in reply to the Chairman. In 1893 you said the exchange went down because the currency was flooded with rupees?—That was one of the reasons.

5442. Do you know that Russia is not a debtor country, in so far as the export and import of merchandise is concerned?—I do not know.

5443. It has been stated that she exports about 70 to 75 crores more than she imports; so that Russia has just that excuse which you put forward for India, that India was not a debtor country, in a sense that her exports are larger than her imports?—I am not quite sure what the position is with regard to Russia, without making references.

5444. Do you know that Japan has almost all her gold in this country—from 27 to 35 millions?—I am not quite sure what the amount is, but I do know that Japan has a good deal of gold in this country.

5445. Should not that have some influence on the amount which the Secretary of State should have in his hands?—I do not think that Japan's financial position is at all a safe guide.

5446. The United States exports from 100 to 150 millions, which is about 225 crores, more than they import. Do you know that it is in yesterday's "Times" that the States exported 124 millions more in 11 months of last year than they imported?—I have not read yesterday's "Times" sufficiently carefully to be quite certain about it. I did not notice that passage.

5447. (*Mr. Keynes.*) Under Part I. of Appendix XXI. (pp. 550-4), I think I understand what your position is, but I have got one or two questions to ask. As regards paragraph 8, which relates to the sums of money which have been borrowed and repaid by various firms, do you mean to suggest that India's borrowers have held sums anything like those continuously since 1908?—Not necessarily.

5448. Then what exactly do you mean to suggest by those figures?—I mean to suggest that there have been loans continually running apparently for five years.

5449. Do you mean merely that those firms had some loans, not that they had loans of one million and upwards?—Not in one loan, but that they borrowed sums during the year and repaid sums during the year amounting to one million. If the loans were for

periods of three months, we will say, they might conceivably be for 250,000*l.* each time, which would make one million borrowed in the year. If money was borrowed for shorter periods, it might perhaps be only 100,000*l.*

5450. I was thinking of this sentence, "The above borrowers appear to have been the recipients of what amounts practically to standing loans, totalling in all several millions sterling, for a period of over five years." In that sentence you do not mean us to infer that those firms had standing loans of several millions for over five years, do you?—No.

5451. I wanted to get that point clear, because it seemed to me that the sentence bore the other interpretation?—I might perhaps be permitted to explain that the figures and the exact words which I have used are those which were given in Parliament in answer to a question put, I think, by Mr. Gwynne last November; but I can verify the question and tell you exactly.*

5452. I do not want that, thank you; it was only the inference you were drawing from these figures I wanted to be sure about. In paragraph 12 of Part I. of Appendix XXI. (page 553) you propose that the Secretary of State should have in London three millions as a maximum balance; do you mean by the phrase "maximum balance" that, except on rare occasions, his balances should never exceed three millions?—Yes.

5453. Did you arrive at this figure because you found that his balances had never fallen below three millions?—I arrived at that figure because I found that on several occasions the Secretary of State held a balance of about four millions.

5454. Do you argue that what experience shows to be a safe minimum must therefore be a safe maximum?—I infer that what has been satisfactory in the past, namely, a balance of four millions—

5455. As a minimum?—I do not know whether it is a minimum or not, because the official publication only gives the balances at certain periods; for example, I find that on the 31st March 1893 to 1901, on the 31st March 1903, on the 31st March 1907, and on the 31st March 1908, the Secretary of State held balances of about two to five millions sterling.

5456. May I put it in this way—that because four or five millions have on certain occasions been found sufficient, therefore three millions would be sufficient on all occasions?—That is somewhat the way in which I argue.

5457. Now I will turn to Part II. of Appendix XXI. (pp. 554-7). With regard to the remittances by sales of Council bills, I am not quite clear whether you criticise these remittances on the ground that they were made too soon, or on the ground that they should not have been made at all?—What remittances by sales of Council drafts do you refer to?

5458. I mean remittances by means of Council drafts in 1910, 1911, 1912, and 1913; do you argue that they were made too soon, or that they ought not to have been made at all?—I argue that no remittances over and above the requirements of the home charges should have been made at all. Of course the home charges must be provided for, but over and above the home charges I argue that no money should have been remitted at all, and that no Council drafts should, therefore, have been sold.

5459. That of the sums actually remitted a large part ought not to have been remitted at all?—Yes.

5460. You have probably noticed that on the 31st March 1913 the Secretary of State's balances were very nearly what they were on the same date in 1909, four years previously—they were just a trifle more. I think your memorandum does not give the figures for 1913?—I had not the Secretary of State's figures when I wrote that memorandum.

5461. The actual figures, I may add, were 8,372,900*l.* on the 31st March 1913, therefore they were very nearly what they had been four years previously. I understand that of the sums remitted during that period, you hold that some part ought not to have been remitted?—I find that the balance four years

* See Hansard, Vol. XLIII., pages 1461-2 and pages 1759-60.

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previously (*i.e.*, in 1910), held by the Secretary of State, was over 12 millions.

5462. 1909 I am speaking of?—In 1909 it was 7,983,000*l.*

5463. That is very nearly the same?—Yes, it is.

5464. Would you argue that during that period sums have been remitted which ought not to have been remitted?—Yes.

5465. They were all spent; which of the purposes on which they were spent do you think were improper?—I do not know in what direction they have been spent.

5466. I am putting on one side the sums credited to the Gold Standard Reserve and to the Paper Currency Reserve, to which I am coming later on; apart from those amounts all sums remitted have been spent?—I only know, so far as you have just this minute informed me, that the balance has been reduced to eight millions. That is all I know. But even if you tell me the balance has been reduced to eight millions I am still in the dark as to how it has been done and why it was not done a year or two before.

5467. I understood you to say that the remittances were not merely sent too soon, but that they ought not to have been sent at all?—So I thought.

5468. I am not now asking whether the Secretary of State remitted at the right date or not, but whether, at whatever date he remitted, he spent the money for improper purposes?—I cannot say that he spent it for improper purposes, because I am not aware where this money has gone.

5469. First of all, the home charges; you admit that they are all right?—Yes.

5470. Secondly, the purchase of silver, and I think you allow that?—Yes.

5471. Thirdly, there is the redemption of temporary debt; is that a proper purpose?—Yes.

5472. And fourthly, there is the expenditure on railway material?—Yes.

5473. Putting apart the Gold Standard Reserve and the Paper Currency Reserve, practically every penny remitted during the past four years has been spent on one of those four purposes?—If that is so, it has been spent on proper purposes, and the only criticism in that case that I should offer is, why was not the temporary debt paid off many years ago instead of only last year?

5474. Your criticism then comes down purely to this point, that the Secretary of State has done certain things at a later date than he ought?—That he has brought money to England several years in advance of his requirements.

5475. But it does not amount to any more than that?—That is one way of putting it. I can admit that in a sense the action of the Secretary of State resolves itself into bringing to this country several millions some years in advance of his own requirements. That appears to me to be very grave mismanagement.

5476. I only wanted to get exactly what your position was, because there are at least two different lines of criticism which to my mind are rather mixed up in your memorandum, namely, that through excess of precaution he postponed doing things which he could have done sooner, and the other point, that he was draining away money from India and doing various terrible things to India when he ought never to have brought the money from India at all; but now I understand that the second part is not your charge?—Yes, those are my charges—doing things that he ought not to have done.

5477. Then in regard to this money which he ought never to have brought at all, which are the ways in which he has used it that are improper; I come back to that?—I was not aware how it had been used before I received the information that you yourself have given me. If the money has been used simply for home charges, for the redemption of debt, for the purchase of silver, and for railway material, it has been used properly, except that the debt might have been redeemed a year or two earlier than it has been redeemed.

5478. If I am right that it has all been used for those purposes, then that part of your criticism falls to the ground?—I do not understand how it falls to the

ground, because even if the money has eventually been correctly disposed of—

5479. I do not say that particular part of the proposition falls to the ground, only the part of your criticism that the money has been remitted in excess. I am not dealing now with your criticism that it has been remitted at the wrong time, but with that part of your criticism which says it ought never to have been remitted at all. That, I think, falls to the ground if the only purposes for which it has been spent are those I have named?—If all the money has been properly disposed of, that portion of the criticism is in a sense disposed of.

5480. If it has been spent on the purposes I have named, then it has been properly disposed of?—It has been properly disposed of in the end, eventually. I have never asserted for a moment that the Secretary of State has improperly disposed of the money. What has occurred is that he has accumulated vast sums for which he had no need, and then, under the effect of repeated criticisms, he has at length disposed of that money, but only under the stimulus of repeated criticisms.

5481. When you say improperly remitted, you mean remitted too soon?—Remitted years ahead of his requirements.

5482. Not remitted too much?—He has apparently disposed of it in the end.

5483. I come now to your proposal about fixing the price of Council bills. In your memorandum you have suggested that it should be fixed at $1s. 4\frac{3}{4}d.$ or $1s. 4\frac{1}{2}d.$; but in your evidence to the Chairman you suggested that it should be fixed at $1s. 4\frac{1}{8}d.$ Which of those figures do you wish to maintain?—The figure that I suggest for the home charges is one that shall be below the gold point. Of course, the gold point varies from month to month, and therefore it is impossible for me to give the exact figure; but I should think that about $1s. 4\frac{1}{16}d.$ would be a workable point for the home charges.

5484. I understood you to propose that the Secretary of State should put up a brass plate?—Yes.

5485. On which he should say that at all times of the year there should be a certain fixed rate for Council bills?—Yes. I think it should be $1s. 4\frac{1}{16}d.$

5486. That $1s. 4\frac{1}{16}d.$ would be the fixed rate?—That rate should be a stable rate, but it would, of course, be liable to alteration.

5487. It would be maintained all the year?—Possibly, or at the end of six months there might be reasons for amending the rate. I should say that $1s. 4\frac{1}{16}d.$ would be about the correct figure to start with.

5488. That is your proposal, that there ought to be sales of bills at all times of the year at that rate?—Yes.

5489. Are you aware that the rate got for these bills between 1910 and 1913 was almost exactly $1s. 4\frac{1}{16}d.$?—Quite possibly.

5490. So that your proposal would have made no practical difference?—It would have made a great deal of practical difference in actual business.

5491. The Secretary of State would have undergone the risk and inconvenience of undertaking this liability to sell at a fixed rate without getting any more for his bills?—That I cannot say.

5492. I understood your line to be that the Secretary of State should not put himself out to help trade, but that he should get the most profitable rate for his bills?—Yes.

5493. If your policy had been followed, he would have undertaken certain risks, and would have got no more profitable rate than he actually got?—That I cannot say. I cannot see the risks.

5494. Taking my figures, if he did in fact get $1s. 4\frac{1}{16}d.$, that would be the case?— $1s. 4\frac{1}{16}d.$ is about the specie point now, but a few years ago the specie point was considerably higher—it was $1s. 4d.$ and $1\frac{1}{2}$ annas, and there was a time when it was 2 annas, and there have been times when it was $2\frac{1}{2}$ annas—I am speaking in Indian phraseology; I should say $\frac{5}{32}$. If the Secretary of State has only got an average of 1 anna now, $\frac{1}{16}$, over $1s. 4d.$, it is clear that he is doing

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right, but if 1 anna is an average which corresponds over a period of years, then he has got a poor rate.

5495. I am speaking of the period from 1910 to 1913?—I think from 1910 to 1913 the average rate ought to have been more than 1 anna, over 1s. 4d., possibly 1½ anna— $\frac{3}{32}$.

5496. Taking your figures, if he had put up his brass plate, he could not have got more than that?—He might have got $\frac{3}{32}$ four years ago; that is, his brass plate might have shown the rate of $\frac{3}{32}$. His brass plate, I suggest this year, should show 1 anna, but four years ago I think the gold specie point, the import point into India, was nearer $\frac{1}{16}$ than $\frac{1}{32}$.

5497. I was trying to argue it on your figure, but of course if you take a different figure, I shall have to use different arguments. I will pass from that to a further point connected with it. Suppose that the Secretary of State fixed some rate, which may be 1s. 4½d., or some other rate, and he does not sell enough bills to meet his various charges, how is he to make up the difference?—Ship home sovereigns.

5498. These sovereigns he has taken at the rate of 1s. 4d., that is, he has issued rupees against them at the rate of 1s. 4d.?—He may not necessarily have issued any rupees against them at all. They may be sovereigns that the public have imported.

5499. How else have they got into his treasuries?—Through the collection of taxation.

5500. At the rate of 1s. 4d.?—I cannot tell what the rate is. The public import sovereigns when it pays them; sovereigns are paid to the Government in the form of taxation, and the Government then finds itself in possession of the sovereigns in its treasuries.

5501. The sovereign is legal tender for so many rupees at 1s. 4d.?—Yes.

5502. Therefore the Government could not receive it in payment of taxation at any other rate?—No.

5503. It therefore receives this gold at 1s. 4d.?—That is so as between the Government and the public, but the public would have imported the sovereigns at a different rate to the 1s. 4d.

5504. I am speaking of the Government. The cost of bringing those sovereigns back would be ½d., would it not?—Something like that.

5505. So the sovereigns that would have to be brought back to the Secretary of State would bring in money at the rate of 1s. 3½d.?—Yes.

5506. You are proposing that he should stick out for 1s. 4½d., and then for the balance which he cannot get at that rate, he should bring sovereigns home at what works out at 1s. 3½d.?—Yes.

5507. And you think that policy would lead to his getting a better average rate than his present policy?—Yes. My reason is that, roughly speaking, in four years out of five, the balance of trade is in India's favour, so I take it that in three years out of four, or in four years out of five, the rate of exchange would always stand at the gold import specie point, or in the neighbourhood of it, and that only on rare occasions, one year in five, would there be a risk of some small portion of the Secretary of State's home charges having to be shipped back in sovereigns. That is the risk.

5508. Suppose that seven-eighths were sold at 1s. 4½d., and one-eighth had to be brought back in the way I have described, will you take it from me that it would work out at about the same as if he had sold them at an average of 1s. 4¼d., so that if only one-eighth had to be brought back in gold, he would be no better off than he is at present?—If the figures that you state are correct, that would be so; but it would be a much more correct procedure, in my opinion.

5509. It does not look, however, as if there is much in it from the public point of view of getting a better rate of exchange?—I have not worked out these figures that you tell me of.

5510. They are an important part of the argument, but you have advanced this proposal of yours without working them out? What I mean is this: You are suggesting to me that the Secretary of State remits home seven-eighths of his home charges at 1s. 4½d.,

and one-eighth of his home charges at 1s. 3½d.?—This might happen only one year in five.

5511. In the case of one-eighth he has to bring home the sovereigns?—That is equivalent to bringing home one-eighth at 1s. 3½d., and you assure me that the average between one-eighth at 1s. 3½d., and seven-eighths at 1s. 4½d., is about 1s. 4¼d.; if that is so, then there is not much in it in the year in which it occurred.

5512. This calculation is the only sort of calculation that you can make, if you are wondering which of these two policies would pay best?—That is so.

5513. But, nevertheless, you have not examined it?—Assuming those figures to be correct, that state of affairs would arise on an average one year in five and only one year in five, because only one year in five would it be necessary to ship home gold in payment of a portion of the home charges. So one year in five he would be no better off, he would merely stand at 1s. 4¼d., but in the other years as a whole the exchange would be higher.

5514. You propose, therefore, that he should undertake this very serious liability of selling bills at all times of the year at a fixed rate, and run the risk of not being able to get his home charges back, for what would clearly be a mere tuppenny-ha'penny profit, even if he got it?—I cannot recognise the slightest risk whatever of any kind; on the contrary there is less risk than there is at present, because were this system in force, he would only withdraw from India the amount required for home charges—16, 17, or 18 millions, whereas at present the Secretary of State is withdrawing 25, 26, 27, or 29 millions wholly unnecessarily.

5515. But we have agreed that they are withdrawn for necessary purposes?—Not necessary purposes at the time they were withdrawn. They were subsequently made use of, but they were quite unnecessary at the time they were withdrawn.

5516. If less had been withdrawn in the earlier years more would have been withdrawn in the later years?—No, because the floating debt would never have been incurred, I take it, in London; and, therefore, there would have been no necessity to remit money home to pay off that floating debt.

5517. If it had not been incurred, then more money would have been required to meet the purposes for which it had to be spent?—Possibly, if the same balances had to be maintained, that is, if you hold that the level of the cash balances maintained by the Secretary of State is correct; but I assert that that balance was unduly heavy, and therefore that these loans were unnecessary.

5518. That is going back to another point, which we discussed earlier?—That is another point, I admit. May I state at this point that I cannot agree for one moment that the procedure of selling Councils at a fixed rate involves any risk on the part of the Secretary of State more than he is at present incurring? It does not involve the slightest risk.

5519. (Sir Robert Chalmers.) Is that so as regards the seasons? It might be that the season of demand for bills might not be the season at which the Government of India was in possession of rupees; you would admit that that would be the case, would you not?—Yes, that is a little additional risk.

5520. It might be a very important question?—That could be overcome.

5521. It would depend on a calculation of supply and demand?—Yes, but I imagine that would have to be overcome possibly by the shipment of gold.

5522. (Mr. Keynes.) Your proposal merely comes to this, that it is your opinion, not on the basis of any calculation, that if the Secretary of State brought over as much as he could at 1s. 4½d., and the balance, whatever it might be, in gold, that would lead to a better average rate of exchange than what he now gets?—Yes.

5523. That is not based on any calculation or any minute investigation of any sort?—It is impossible to base it on any exact calculation, because there is no profit in working out imaginary instances on past experiences. There is no profit in going back three

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years, and saying that if 27 millions had not been remitted to England but only 16 millions had been remitted, and if exchange had been at such-and-such a point, and if this had occurred and that had occurred and the other had occurred, the result would be different. I do not think that is a profitable investigation.

5524. May I put to you one or two considerations that should be taken into account? Suppose you fix exchange at 1s. 4 $\frac{3}{4}$ d., then the Secretary of State would never sell any bills when there was gold available in Egypt or Australia, would he?—It depends on what the gold specie point was.

5525. When there is gold available there, I assume it would be below that?—Yes, quite possibly.

5526. In some years there is a very great deal available in Australia and Egypt, is there not?—Yes.

5527. An amount almost equal to India's balance of trade?—Quite possibly.

5528. In those years the Secretary of State would sell no bills?—I cannot say that.

5529. Or very few bills?—When you referred to the balance of trade, I thought you meant the balance of trade not taking the home charges into consideration, but over and above the home charges.

5530. Over and above the home charges the balance of trade is trifling, is it not?—I should not call it trifling.

5531. How much is it?—It varies between, I suppose, nothing up to as much as 10 millions or 12 millions.

5532. What is the average—about three millions or four millions; I think it is something small of that sort?—I should have thought, without looking into the figures, that the average would be nearer five millions in recent years. In recent years the balance has been very large, and in the years immediately following the closing of the mint the balance was very small.

5533. A great part of that balance is needed for payments of interest and so forth in England, and what you may call the available free balance is what the Secretary of State draws?—I think there is a much larger balance due to India than what the Secretary of State draws.

5534. How is that used?—It is liquidated by the shipment of sovereigns to India, and over 20 millions, I think, went in last year.

5535. That brings us to a point at which we can argue. I was thinking of the additional amounts available over what are now available. When there is a great deal of gold in Australia and in Egypt, all that gold would go and the Secretary of State would not sell bills?—Not if the Secretary of State's rate was fixed at too high a level.

5536. If fixed at 1s. 4 $\frac{3}{4}$ d. in such years, therefore, he would be in difficulties about selling the full amount?—If his rate was too high.

5537. He would be also in difficulties in those years in which there was an adverse balance?—Yes; he would be in difficulties in the sense that the rate would need revision.

5538. On the other hand, if you fix the rate at 1s. 4 $\frac{1}{4}$ d., gold would never flow to India from England in that case?—I should be very sorry to say never, but I do not think it would frequently flow.

5539. It would flow very seldom?—It would flow very seldom in present circumstances.

5540. Is he not driven therefore to a fluctuating rate, from the fact that sometimes gold is available in one place and the gold import point is at one figure, and sometimes gold is available elsewhere, and then the gold import point is a different figure, so the actual figure is not steady throughout the year?—It was for that reason I suggested that the rate of 1s. 4 $\frac{1}{4}$ d. would be a business-like rate to take to commence this method of selling Council drafts.

5541. Still you agree that if they took that rate gold would very seldom flow to India out of England?—Yes, I agree.

5542. But you have criticised the Secretary of State's policy precisely on the ground that the rate he has charged has had that effect?—I do not follow the question.

5543. I understand you have criticised the Secretary of State on the ground that he has sold bills at a rate which prevented gold from going to India?—Yes.

5544. And yet you have proposed a rate that shall have that effect?—Up to the extent of the home charges, certainly. I put the Secretary of State's requirements first. That is why I took the rate of 1s. 4 $\frac{1}{4}$ d., because that would enable the Secretary of State to make his remittances for a certainty before gold commences to flow.

5545. We then come back to the old point that you consider that he has remitted more than he needs in Great Britain?—Yes, at the time that he made the remittances.

5546. If the gold had gone to India in the earlier years, it would have had to be brought back in the later years. Suppose over the four years he had to remit exactly what he did remit, and he remitted less in earlier years so that the gold flowed to India, he would have had to have brought all that gold back again?—I cannot agree to that straight away, because the fact of his not permitting the gold to be imported has been the occasion of a certain amount of silver coinage in recent years, the silver coinage affects prices, and prices affect the movement of trade. So I cannot say I should acquiesce altogether in that proposition; but, speaking generally, I say yes.

5547. I cannot see that the thing comes to much. All that would happen would be that the gold would have been taken out to India, the expense of which would have been borne by Indian traders, and then in a later year it would have been brought back to England, the expense of which would have been borne by the Secretary of State; and apart from those two items of expense, things would have been very much the same as they are?—Even assuming that things were very much as they are, assuming that the result so far as the Government books are concerned was the same, we should still have secured this important consideration—that the public would not have constantly had the rate of exchange jumped about, jumped up and jumped down, by the eccentric action of the Secretary of State.* Even assuming that there was no difference in the Government accounts, assuming that on the average at the end of three years the amount which the Secretary of State realised turned out the same, we should still have eliminated this disturbing influence of an official interference with the exchange, which makes it very difficult sometimes for the public to know what to do in the financing of their business.

5548. What do you mean by calling the Secretary of State's action eccentric; is it not dictated by well known rules?—I think not. I confess that at times I have been unable to conceive any rule by which it has been dictated at all. That is why I used the adjective "eccentric."

5549. The people most concerned in this question, you would agree, are the exchange banks?—They are the people who get most of the convenience out of the transactions.

5550. They have expressed themselves as entirely satisfied?—I quite understand that. I think they are perfectly satisfied. The bankers are the people who will take advantage of this convenience, and I should not expect any exchange bank to say otherwise than that it is a most excellent arrangement which ought not to be disturbed.

5551. I understand that the result of all this is that the one advantage which you claim for your proposals is that persons in India would have more certainty as to what the rate of exchange is?—Yes, that is one advantage.

5552. And there is no other important advantage?—I think there would be an advantage to the State; that is to say, I think the Secretary of State would have realised more for the rupees that he has sold than he actually has done. That point you question, but I do think he would have realised better myself. Those are the two advantages.

5553. With regard to the steadiness of exchange, I have got one or two questions I want to put to you.

* See note by Mr. Webb to question 5137 on page 228.

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Suppose that the Secretary of State fixed his rate at 1s. $4\frac{1}{8}$ d. or 1s. $4\frac{3}{8}$ d., and, having met his requirements, stopped selling, exchange would rise possibly up to the gold point?—Yes.

5554. Or, on the other hand, while his offer of 1s. $4\frac{1}{8}$ d. was open, exchange might be a great deal lower than that?—Yes.

5555. In what way would there be greater certainty than there is at present? Exchange would still fluctuate between some figure like 1s. $3\frac{1}{8}$ d. and 1s. $4\frac{1}{8}$ d. In what way would it be more certain?—It would be more certain, because in four years out of five the balance of trade is in India's favour, and consequently in four years out of five exchange would have remained at the gold import point.

5556. But at any given time of the year it would be a matter of great uncertainty what the exchange rate would be?—I should not feel very much uncertainty. As a practical merchant dealing with finance every day I should feel very much the reverse. I should feel very much more easy if I knew the Secretary of State was not going to interfere in any way. Speaking as a practical merchant, if I knew that the Secretary of State had one rate and one rate only, viz., 1s. $4\frac{1}{8}$ d., I should then as a practical merchant make my calculations on the movements of trade as far as I was able to judge them, and I should feel that one cause of uncertainty, namely, the Secretary of State, had been eliminated.

5557. (*Sir Robert Chalmers.*) What is it in his action that strikes you, as a practical man, as the cause of uncertainty? You know how much he is putting up?—Yes.

5558. How long do you know that beforehand?—Only seven days.

5559. Is it the seven days that is the most important to you?—Partly.

5560. You do know it in advance, but you would like to know more in advance?—In practical business we sometimes have to make our calculations six, seven, eight, and nine months in advance.

5561. (*Chairman.*) You do not suggest that the Secretary of State could possibly announce, sufficiently in advance to meet your convenience, what he is going to do, do you?—Yes, because if the Secretary of State has his fixed rate of 1s. $4\frac{1}{8}$ d. that might stand for the whole year.

5562. I understood you to say that even that fixed rate must be varied from time to time by the Secretary of State according to the gold point?—It is conceivable, if the Secretary of State was not able to realise the sums required for the payment of the home charges, that at some period that rate might need revision.

5563. (*Sir Robert Chalmers.*) You mentioned six months as the period, I think?—Yes.

5564. Which is less than the period which you would desire for your practical convenience?—Yes; but even if it were revised once in three months, or even if it were revised once in a month, it would be an improvement upon revision once every seven days.

5565. The difference between a week and a month is what you come down to?—I would rather not have a month, because in practical business we have to make our calculations several months in advance. Therefore, I would much prefer to have a year, if it is possible to fix the rate for an entire year.

5566. (*Mr. Keynes.*) I would like to put the question to you from the Secretary of State's standpoint. We start him on the 31st March with three millions in London. He announces that he will sell no bills below 1s. $4\frac{1}{8}$ d.; it is improbable in that case that he will sell bills at that rate in any large quantity until the next busy season comes round, is it not?—I do not think the rate would have any effect. When once it is known that the Secretary of State acts on these principles and that there is only the one rate, I do not think that rate will have any effect on the amount that he will sell. The public will apply for whatever money is actually wanted.

5567. It would affect the amount that he would sell at different times of the year; for instance, people would not want money in India at that rate at present?—I think they would. In exactly the same way as the

public are now taking 20 lakhs from the Secretary of State every week at 1s. $3\frac{1}{8}$ d. or 15½ annas, I think in exactly the same way at this time of the year they probably would take 20 lakhs at 1s. $4\frac{1}{8}$ d. I think at this season of the year 20 lakhs a week can be utilised, and the public would take them. At other seasons it may be that 100 lakhs a week, perhaps 120 lakhs a week, are likely to be taken.

5568. I put that same question to the exchange bankers whom we saw, and they gave a precisely opposite answer; you think they would be wrong on that point?—Yes, I think so. If I may be permitted to add a word, if the rate were suddenly at this moment pushed up from 15 annas to 1s. $4\frac{1}{8}$ d. I can quite believe that the sudden shock to the public would be such that the Secretary of State possibly would sell no Councils for three weeks or a month or two months; but if this principle were introduced and carried into operation regularly year by year, I do not think it would have that effect at all. I think that in the slack season the public would take 20 lakhs, 30 lakhs, or 15 lakhs, whatever they required, and in the busy seasons they would take very much more.

5569. It is your considered opinion that if the rates for Councils were fixed, the Secretary of State would sell substantially the same amount week by week that he sells now?—Yes, I think so.

5570. In an article which appeared in your name in the "Pioneer," some weeks ago, you argued that the Secretary of State would certainly get buyers for his bills, because there is no way except the purchase of Councils by which rupees can be obtained in large quantities?—Yes.

5571. You are not aware of the notification which has been in force for a great many years by which the Government of India have bound themselves to supply rupees or notes in exchange for the tender of sovereigns?—I am perfectly aware of that.

5572. Then the purchase of Council bills is not the only way of getting rupees?—In large quantities with certainty, yes.

5573. The Government of India have bound themselves to give you rupees in exchange for sovereigns in any quantity?—They have, but on one or two occasions they have not been able to do so, and possibly, if I were to ship out five millions of sovereigns to-morrow they would not be able to do so.

5574. On what occasions have they refused to do that?—I cannot give you the exact year correctly, but I was in Calcutta some years ago when there was a shortage of rupees, when 8-anna pieces were shipped to Burma to finance the rice trade, and when the people of Burma would not have the 8-anna pieces, and the 8-anna pieces were all shipped back again to Calcutta, although they were legal tender. There were not enough rupees, in fact, to go round. I remember on more than one occasion that occurring.

5575. You mean that this notification was not maintained by the Government?—I think they had a difficulty on that occasion in maintaining it.

5576. They had a difficulty, but did they maintain it?—It has been maintained, I think. There has been no actual breakdown.

5577. (*Sir Robert Chalmers.*) You are not aware of any specific refusal of the Government of India to abide by the terms of their notification?—No, I cannot recall any.

5578. (*Mr. Keynes.*) You would agree then that what you wrote in the "Pioneer" wants some modification?—No, I think it is substantially correct, as referring to prompt supplies of rupees in large quantities. There are ways of raising rupees in certain quantities, but in large quantities they can only be obtained in that way, by presenting the sovereigns to the Government and getting the rupees from the Paper Currency Reserve. It is conceivable that the Paper Currency Reserve may not have sufficient rupees in it at the time to supply the demand.

5579. Let me quote your words—"The Indian mints now being closed to the public (a most objectionable state of affairs that puts India, monetarily, on a par with Persia or China), there is now no way by which the public in India can obtain supplies

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"of rupees on a large scale except by purchasing them in London from the Secretary of State." You agree that there is a notification which has always been maintained by the Government, by which you can get rupees in exchange for the tender of sovereigns?—Yes. I was perfectly aware of that notification. Perhaps the expression "in large quantities" may not have conveyed to you the same meaning that I had in my mind when I wrote it. The large quantities may be modified by the inability of the Government at certain periods to produce rupees as rapidly as the public might import sovereigns, especially if the Secretary of State's drawings were restricted to 16 millions or 17 millions required for the home charges.

5580. (*Sir Robert Chalmers.*) The statement was not based on a specific actuality?—No.

5581. (*Sir James Begbie.*) You said yesterday, referring to the budget of 1910, that you thought the realised surplus of the previous year warranted a reduction of taxation; you thought that when there was a realised surplus of a million and a half, taxation might have been taken off?—Yes, it might have been taken off.

5582. As a matter of fact, were not some additional duties put on in the budget of that year?—I think 1910 was the year of additional taxes on silver, cigarettes, and petroleum.

5583. To the extent to which these additional duties brought in fresh revenue, they contributed to the subsequent surpluses?—Yes, undoubtedly.

5584. You were questioned yesterday about the sales of Council bills to prevent gold going to India, because the sovereigns might be shipped back again; if there was an effective gold currency in India, would there be any need for the re-shipment of sovereigns to buy silver on a large scale?—Not on a large scale.

5585. Consequently there would be no need to sell bills to prevent gold going to India?—No, I strongly object—and that is one of the grounds of my objection—to sales of Council bills at below the gold import point.

5586. I gather that you are in favour of selling Council bills to lay down money in London for the purchase of silver?—Yes, for token currency purposes.

5587. Would you say that the silver purchases should always be paid for from the proceeds of Council bill sales?—They most certainly ought not to have been paid for last year from the proceeds of Council sales. That, I think, was an unpardonable blunder. On some occasions I think it would be a satisfactory way of providing for the token currency if a small sum were entered in the Secretary of State's budget every year and drawn from for replenishing the token currency, the idea being to prevent any excitement in the silver market, and to enable the Government to replenish its token coinage on the best possible terms.

5588. When silver is purchased from the proceeds of Council bills for coinage purposes, that means an addition to the total currency of India, does it not?—Yes, it does, in a way.

5589. If you use gold from the Paper Currency Department to buy silver for coinage, that is a substitution of silver currency for gold currency?—Yes, quite so.

5590. There is no increase of the total currency in that way?—No.

5591. Whereas if you sell Council bills to be used for buying silver, that is an actual addition to the total currency?—Yes, that is so.

5592. Do you regard it as a disadvantage to India to carry more metallic currency than is absolutely necessary?—Yes.

5593. Regarding Council bill sales below the specie point, do you consider that they act as a stimulant to the export trade?—Not permanently.

5594. But so long as the sales go on?—They act as a stimulus; that is, a falling exchange acts as a stimulus temporarily.

5595. Sales of Council bills might cause exchange to fall?—Certainly, and they have done so.

5596. The other way about, the effect on the import trade would be in the opposite direction?—Quite so.

5597. Selling Council bills in that way means, does it not, that the gold standard is prevented from working naturally?—Undoubtedly.

5598. The nearer you get to the gold import point, the nearer you get to automatic working?—Quite so.

5599. The ability to sell Council bills depends, does it not, on the balance of trade being in favour of India?—Wholly.

5600. The higher you put the rate, the less chance you have of selling your bills unless under very favourable trade conditions?—I doubt whether the actual level of the rate would have much effect upon the trade of the year, taking it as a whole.

5601. If you put it too high you get sovereigns going in?—Yes.

5602. You cannot go above the import specie point?—No.

5603. If the Secretary of State holds for a fixed rate for his Council drafts, and you have an unfavourable state of trade, the balance of trade being against India, he would not be able to sell at his rate if it was a high one?—No.

5604. Then it would be a question, would it not, how long he could afford to wait for the money he requires?—Yes.

5605. An allusion was made yesterday to the time in 1894 when the Secretary of State held back the sale of Council bills for certain rates for a certain time?—Yes.

5606. Do you remember whether when the decision was arrived at not to hold up the sales for special rates an intimation was issued that the sales would be resumed at market rates?—Yes, I remember that. It was notified at the time that sales would be resumed at market rates, and I remember very well the consternation that this notification produced in the mercantile mind at the time. I remember myself being under the impression that the Government were holding out for 1s. 4d., and then we were suddenly told that the Government would take any rate that was offered. I think the effect was to send exchange with a run down to 1s. 1d., speaking from memory.

5607. Do you consider that the reason of that was that the balance of trade was not sufficiently in favour of India to absorb the accumulations of remittances which had been held up?—That result was produced, I think, by the excessive coinage of silver at the time that the mints were closed, which had the effect of checking the balance of trade in India's favour.

5608. The result of holding up the bills for a fixed rate and then throwing the accumulations upon the market was disastrous, was it not?—It was, in my opinion.

5609. Would you say that that experience showed that when unfavourable trade conditions prevail the Council bill system is a disadvantageous one for the Government?—No, I do not think so.

5610. They put themselves in the position that they have to declare how much they want to sell; does that not place them in a bad position?—I think not. I think the public know that 16 millions, or 17 millions, or 18 millions, have got to be remitted during the course of the year, and if at any time the balance of trade is against India, then I think there is nothing for Government to do except to ship home sovereigns from their revenue accumulations to meet their home charges.

5611. (*Mr. Gillan.*) I am not sure that we are looking at this question of Council bills in exactly the same way, and I would like to make that clear, if I can. In Part VIII., paragraph 2 (*h*), of Appendix XXI. you (page 569) have given a definition of Council bills. You say, "They are simply sales in London of sovereigns or rupees delivered in India"?—Yes.

5612. I am not sure if you mean that they are sales of actual coin, so to speak?—Yes, so I regard them.

5613. Suppose that you had an account, we will say, with the Bank of Bengal at Calcutta, and that your home firm had sent you out a bill for, say, five lakhs of rupees, but you did not immediately want the

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coin for that; what would happen to it?—I should pay it in to my credit at my bankers in Calcutta.

5614. You are banking at the Bank of Bengal with whom the Government are also banking?—Yes.

5615. In that event it would mean simply a transfer from the Government account to yours?—Yes.

5616. I will suppose that you also deal in opium; you have bought a lot of opium and you have got to pay Government, and you pay them by a cheque which transfers the amount from your account to the Government account?—Yes.

5617. That cycle is complete without any coin?—Yes.

5618. Supposing that a great many transactions in India were done by cheque instead of by coin, these Council bills would not mean sales of actual coin, would they?—Not exactly.

5619. Would it not, therefore, be more correct to say that they are sales, we will not say necessarily of coin, but of a right to a certain sum in Indian legal tender currency?—I should not object to that definition.

5620. Would you be prepared to go further, if we transposed the definition and said that these Council bills which the Secretary of State at present sells in London are really equivalent to purchases by him in Indian currency of bills on London? That is what they are equivalent to, is it not?—In a sense, yes.

5621. I am only putting that, because it seems to me to put the matter in rather a clear light. That legal tender currency in India is liable, is it not, to appreciate and depreciate in exchange, and that naturally like any other currency in any other country?—As regards the foreign exchange, yes, it is liable to fluctuate between the specie point inwards and outwards.

5622. What I was going to say is that those fluctuations do not depend on the cost of importing sovereigns; as you said just now, they are limited by that cause, but they do not depend on it?—Not wholly.

5623. In the passage that I have quoted from your memorandum, you go on from that definition to say "and the cost to the public should be only a shade below the actual expense of shipping sovereigns to India" (page 569)?—Yes, that is so.

5624. Why do you make it depend on that factor?—Because the balance of trade is, on the whole, in India's favour.

5625. I can see what you said in reply to Mr. Keynes on that point, but here it seems to me to be an inference drawn from that definition?—Yes, that is so.

5626. Do you still think that is correct?—Yes, I think so.

5627. Yesterday, in answer to the Chairman, you spoke of the Secretary of State making, I understood, a rate of exchange; but that I was not clear about?—Yes, I did.

5628. What is the total volume of Indian trade? I put it to you that it is somewhere, in and out, between 300 and 400 crores a year?—Yes.

5629. That creates exchange to that extent?—Yes.

5630. The Secretary of State's demands are, we will say, 30 crores?—Yes; it is a very large demand.

5631. Assuming that he has, we will say, a tenth of this exchange created by the total trade of India, how is it possible for him to make a rate? That is what is not clear to me. How can a person who is dealing, we will say, in a tenth of any commodity, exchange or anything else, make a rate?—I can explain that very easily. He makes a rate in this way: When in the eyes of the public the demand for remittances to India is weak, and he suddenly and unexpectedly announces that next week he will dispose of 50 lakhs instead of 30, he thereby at once depresses exchanges by $\frac{1}{10}$ or so. If he announces: Next week I will not auction any rupees at all, he will strengthen exchange, but if he announces: Next week I am going to sell 100 lakhs instead of 50, and the market is already weak, the instant effect will be to knock exchange down at once. His mere announcement that he is going to sell next week so many rupees, has a depressing effect upon the market, or a strengthening effect upon the

market if he reduces the amount of rupees that he is putting up for auction.

5632. As I understand it, you mean this, that being a very large dealer in this commodity, he has the power of disturbing the market?—Being a monopolist, almost, in the sale of rupees—for he is not only a large dealer, he is a monopolist—being a monopolist, he can largely make the rate. He can say week by week: I will not sell a single rupee, and in that way he can force the rate up to specie point. If he does not take that action, but says: I am going to sell next week 50 lakhs, and then in a subsequent week I am going to sell 100 lakhs, and the week after I am going to sell 200 lakhs, he can depress the rate down to specie point outwards.

5633. I am afraid I must pursue that point if you say he is a monopolist. In what sense is he a monopolist? It is open to anyone to take sovereigns into India and demand rupees, is it not?—Yes; under the notification which Mr. Keynes just reminded me of, that is so.

5634. How is his position then one of monopoly?—I regard it as a monopoly in this sense, that throughout the last year or two he has actively intercepted and prevented the export of sovereigns to India by auctioning rupees at below specie point.

5635. That is another point altogether, surely; I was asking you about his position as a monopolist?—That is how he has exerted the power which his position gives him. If you take into consideration the fact that he has undertaken to produce rupees in exchange for sovereigns in India at the rate of 15 rupees to a sovereign, to that extent I admit that he is not a monopolist.

5636. (Chairman.) May I put it to you that your idea would be better expressed if instead of calling him a monopolist you said that he had undersold all possible competitors?—Yes.

5637. (Mr. Gillan.) That is rather a different point?—There is no competitor, though, except the Government, because there is nobody who can supply the rupees; even if they are coined and supplied in India in exchange for sovereigns, there is only one supplier and that is the Government.

5638. (Chairman.) But the Government has bound itself?—The Government has bound itself, has undertaken, to supply rupees.

5639. (Mr. Gillan.) I will ask you now another point in the same connection. In paragraph 7 of Part II. of Appendix XXI. (pp. 556-7), you refer to the interference of the Council bill system with foreign exchanges. Is it your view that the sales of Council bills within the Secretary of State's requirements have that effect?—I would not in those circumstances describe it as an interference; they would affect exchange, of course, because the Secretary of State is such a large drawer on India. In so far as they are for his legitimate requirements in this country, I should not describe them as an interference. It is only when he commences to draw in excess of his legitimate requirements in this country, that I describe the transaction as an interference.

5640. So that this reference to interference in this paragraph which I have quoted was based on the fact that in your judgment he has drawn in excess of his requirements?—Yes.

5641. I merely wished to make that clear. I think you said something about sales of Council bills depressing exchange?—Yes, sometimes.

5642. That is their natural effect?—Yes.

5643. Suppose that the Secretary of State had in particular cases refrained from selling Council bills for the time being, that would have a good effect on exchange, would it not?—Yes, it would stiffen exchange.

5644. But, assuming always that he is not selling outside his requirements, he would at some later date have to sell so much the more?—Yes, he would have to put himself in funds either by sales or by receiving specie.

5645. Assuming that he sold this sum later on, at that time, *pro tanto*, the effect would be to depress exchange?—I am not quite sure about the *pro tanto*,

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because at the other seasons of the year trade may be very brisk, and there may be an immense demand for money, and if the Secretary of State sells when there is an immense demand for money, he does not depress exchange so much as if he sells when there is a very small demand for money. Therefore, while there is a tendency to depression, I cannot say the tendency is *pro tanto*.

5646. I do not say that one could follow it out quantitatively; but you do not think it would have an equal effect in the opposite direction?—No, it would not have an equal effect.

5647. I understand that in a bad season he would get a lower rate, but would not the amount on the market have exactly the same effect in the one direction that it had in the other direction?—If the amount that he put on the market corresponded exactly with the additional demand, yes.

5648. Now I come to the amount sent home to meet the requirements of the Secretary of State. I think you have more or less agreed, in answer to Mr. Keynes, that, taking the period as a whole, there has not been sent home more than the Secretary of State actually in the long run needed or spent?—I would be inclined to put it, that, having sent home very much more than he has required, he has successfully managed to get rid of it in legitimate ways.

5649. Very well; I will come to that later on. I must ask you what you exactly mean by home charges when you say that the sales of Council bills should be directly limited to the home charges?—Do you desire me to define home charges?

5650. I will put it in this way: Do you mean the home charges year by year?—Yes.

5651. The home charges of a particular year?—Yes.

5652. If the home charges this year are 20 millions, he has not to remit home 21 millions; is that your position?—Yes.

5653. How would you treat exchange by Council bills over a series of years, taking good and bad together? In a famine year you said that you would bring home sovereigns?—Yes.

5654. At a rate equivalent to 1s. 3d. and, I suppose, $\frac{3}{4}$?—Thereabouts.

5655. It is not, in your view, wise finance to anticipate a possibility of that kind?—Quite so.

5656. It is not wise finance in your opinion?—No, it is not wise finance.

5657. It is not?—Not to anticipate, not to force exchange down to specie export point in anticipation of a famine year, which I consider is the policy that the Secretary of State is now following. I will take an example from to-day's position. The Secretary of State is now selling at below 1s. 4d. for no conceivable reason that I can think of except that he has habitually done it before for several years and he is doing it again, but not for any reason that I can discover.

5658. In your opinion, is it not wise of him to take advantage of a strong exchange or of favourable seasons in order to get his money home? You would risk everything and leave anything that he requires to be brought home in the course of the year, whatever that year was?—I would risk each year—take each year as it stands.

5659. About the way in which the money is being used—that is a matter you referred to just a moment ago. Sir Robert Chalmers put to you some figures yesterday, and I think Mr. Keynes also brought it out this morning, showing how it has been used?—Yes, that is so.

5660. Would you not agree, in view of those figures, that the Government of India have, as a matter of fact, succeeded in keeping up a very reasonable programme of public works, and at the same time have avoided borrowing to any large extent?—I think the programme of construction which has been carried out is, on the whole, not unsatisfactory.

5661. And that has been done with very little net borrowing?—It has been done on the whole with little borrowing, certainly.

5662. Incidentally, that is a result which has been obtained only by reason of these large balances which the Government of India have held?—Yes.

5663. To that extent, would you agree that the existence of those large balances has had a beneficent effect?—Yes.

5664. You say in paragraph 10 of the first part of your memorandum that the policy of constructing reproductive capital works in India "does not appear to have been actively developed" (page 553); I do not quite understand what you mean by that sentence?—That sentence is based upon the fact that there has been a strong agitation from Bengal and Bombay that the amount spent on railway works has not been sufficient. Although large amounts have been spent, there is a consensus of opinion in Bengal and Bombay that the amount has not been sufficient. The fact remains that although in this connection the Railway Finance Committee in 1907–8 recommended 12½ millions annually to be spent on railways, that amount has never been spent.

5665. I quite agree?—Therefore, although large amounts have been expended on capital works, I do not consider that sufficient has been expended.

5666. Would you have been inclined then, taking the general financial outlook into consideration, to spend more?—Yes.

5667. In the present year's programme of railways and other works, we have to draw to the extent of no less than 11 millions from our balances—I daresay you noticed that in the financial statement?—Yes.

5668. Supposing you had spent more money in previous years on railways or any other objects, what would have been the result this year? I put it to you that there would have been two alternatives—either you would have had to drop very much of your railway programme, which I presume you would admit would have been very unfortunate, or you would have had to borrow very considerably in the London market?—I do not see it in that way at all. It appears to me that if the railway programme had been more completely carried out in the years gone by, there would not have been the necessity to spend so much on it now.

5669. (Sir Robert Chalmers.) You think it is finite, do you?—No, not finite.

5670. (Mr. Gillan.) It is only the last two or three years I am considering?—I understood the question to be that if this money had been spent in the past it would not be available to spend now; and my reply to that is that if it had been spent in the past there would not have been so much necessity for spending it now.

5671. We have been keeping up a programme of about 9 millions or 10 millions, and this year we have increased it?—Instead of the 12½ millions recommended by the Railway Finance Committee; that is to say, the Government of India's programme has been several millions short of the recommendations of the special committee who were formed to advise the Government in that respect—their actual work has been considerably short of the recommendations of that committee, although the work has been large.

5672. What I was putting to you was that if we had spent all the money in the last two or three years we might have had to drop from this programme not say, 10 millions, but a great many, perhaps 5 or 6?—Such a thing is conceivable.

5673. Do you not think the Government were, as a matter of fact, well advised in keeping a little money in hand, so as to maintain a steady programme instead of jumping up and down by millions?—I think it is possible that had I been responsible for the railway programme five years ago, I might have acted exactly the same as the Government have done; but the fact remains that circumstances have proved that it was not adequate.

5674. (Lord Kilbracken.) You tell us that, generally speaking, the Government of India and the Secretary of State have erred by excess of caution and unwillingness to take risks?—Yes.

5675. You say that, I suppose, speaking as a business man?—Yes.

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5676. In other words, you apply to this question the principle which would govern a merchant in managing his own business; and looking at it from that point of view, you think that the Government has been over cautious?—Yes.

5677. Or pessimistic, as you say?—Yes.

5678. A merchant who wants to succeed in business has, I suppose, to take risks pretty often?—Yes.

5679. Do you think that a Chancellor of the Exchequer or a Finance Member of the Council, with all his responsibilities for the affairs of a great country, should act on the same principles as a private individual who is trying to make a fortune in business?—Not exactly the same.

5680. Does it not come to that?—It is a matter of degree. I would not suggest that the Government should conduct their business on exactly the same lines as a private firm who are paying a dividend, but I think if they moved a step or two in that direction it would be a good thing.

5681. You admit that there is a very considerable difference?—There is a difference certainly.

5682. And that the principles, in other words, which guide them should not be the same?—Not identically the same.

5683. (*Mr. Keynes.*) In answer to one of my last questions you said that if the Secretary of State fixed 1s. 4 $\frac{1}{16}$ d. as the rate for his bills he would sell about the same amount each week as he does now?—I think so.

5684. At present he sells some bills every week?—As a rule, yes.

5685. No one will buy from the Secretary of State at 1s. 4 $\frac{1}{16}$ d. if the rate in the outside market was below this?—If the gold import point was below it.

5686. If the exchange rate in the outside market was below it?—That is right.

5687. Therefore you hold that if the Secretary of State pursued the policy you recommend, the rate in the outside market would never be below 1s. 4 $\frac{1}{16}$ d.?—It would only be below on those occasions when the balance of trade turned against India.

5688. But in ordinary years it would never fall below 1s. 4 $\frac{1}{16}$ d.?—I think so.

5689. It is therefore your considered opinion that if the Secretary of State announced he would not sell bills below 1s. 4 $\frac{1}{16}$ d., then in normal seasons exchange never would fall below that rate?—That is so.

5690. (*Chairman.*) Now we will turn to Part III. of Appendix XXI. (pp. 557-9), if you please. The principal recommendation that you make in that part is that the Bombay mint should be opened at once to the free coinage of sovereigns, I think?—Yes.

5691. Will you please explain to me what advantages you think the opening of the mint would bring to India?—One advantage, in the first place, would be that movements in the foreign exchange would be regulated automatically—it would facilitate their regulation automatically. The other advantage is that it would also facilitate the growth and development of a gold coinage.

5692. Taking the first point I do not quite follow your meaning when you say that it would facilitate the automatic regulation of exchange; in what way would it do that?—It would enable the public at all times to present gold for conversion into sovereigns whenever they required them, and would therefore give them another means of putting themselves in funds, in cash, than at present exists.

5693. Am I to understand that the advantage in that respect would be derived from the facility for coining the gold which is now in India?—That is one of the advantages.

5694. What would that gold be? Do you suppose that the produce of the Indian mines would, if such a mint were opened, be tendered for coining in Bombay?—I think so.

5695. I think we have had it on the authority of the Indian Government that some time ago they found that the mines were under contract to send their gold to England?—That is so.

5696. They have large dividends to pay in England?—Yes.

5697. Do you think the inducements to them,

under those circumstances, to send gold to the mint in Bombay would be large?—If the mint were regulated on the same excellent principles that regulate the London mint, yes.

5698. Even though having these large sums to pay in England, you think it would pay them better to have their gold coined in Bombay than to send it to England?—Yes, I should think so.

5699. At any rate, that is one of the sources on which you count?—Yes.

5700. Do you think that much gold would be produced from the hoards?—I do not think that the effect of a mint would be suddenly to draw gold out of hoards, but in times of danger and emergency it would afford a means of turning the savings of the people in the hoards into money.

5701. Rapidly?—Rapidly. In past famines and in past times of trouble, metal has been produced from hoards, and I think a similar experience would occur again.

5702. May I take it that you do not anticipate that it would add very much to the amount of gold coinage in India, but you think on the whole it would have that effect?—Yes, I think so.

5703. You propose, I take it from what you have said, that no seigniorage should be charged on the gold coined at the mint?—Certainly not.

5704. Sir Robert Chalmers points out to me that in the first paragraph of this section of your memorandum (page 557) you quote the Indian Currency Committee's recommendation (section 54) "that the Indian mints " should be thrown open to the unrestricted coinage " of gold on terms and conditions such as govern the " three Australian branches of the Royal Mint."* Those terms and conditions do include seigniorage; perhaps you are not aware of that?—I was not aware that there was any seigniorage charged in Australia. As far as I remember, I think a charge was made for maintaining the mint, but I did not know there was a charge in the form of seigniorage.

5705. At any rate, I am to take it that it is an essential point in your proposal that no such seigniorage should be charged here?—Yes.

5706. The principal advantage which you would expect to derive is that you would increase the amount of gold coin in circulation?—That would be one of the tendencies.

5707. Is there any other advantage?—The advantage is that the country would be fitted with what I regard as an essential part of its monetary mechanism. I regard it as an essential part of its currency mechanism that it should have a mint at which money could be coined at the requisition of the public.

5708. I want to get exactly at your reason why that is essential. Am I right in thinking that you consider it essential to a proper currency system that there should be a gold currency?—Yes.

5709. And essential to a gold currency that there should be a gold mint?—Yes, on the spot, in India itself.

5710. It has not been found essential everywhere—in South Africa, for instance, where you have the largest production of gold?—There always was a mint there, I think, until we closed it.

5711. There is no mint at present. There was a Transvaal mint, you mean?—Yes. I cannot conceive why a mint has not been opened in South Africa.

5712. (*Sir Robert Chalmers.*) You are not aware of any large and definite demand for a mint from South Africa, are you?—No, not beyond the demand that I myself endeavoured to stimulate when I was in South Africa.

5713. (*Chairman.*) As you put it, it seems to me that it is really rather for the perfection of a theory than for any very definite practical advantage that you can point to, that you advocate the opening of a mint for the coinage of gold. What I mean to suggest is, that the only practical advantage you have suggested is that it would increase the number of sovereigns in the currency?—It would do away, in a measure, with the management by the Secretary of State of the foreign exchanges, in that there would be

* C. 9390, page 16.

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always the mint at which the public could convert their gold into legal tender coins in the event of the Secretary of State taking any action of which the public did not approve. It is a safeguard, so to speak, an additional safeguard, that the people of India can on the spot obtain their own money on presentation of the metal.

5714. Regarding them as an additional safeguard of exchange, the sovereigns coined at the mint must be exported, must they not?—Not necessarily.

5715. How would they support exchange without being exported?—The actual support is not exercised until the time comes for their exportation, but the fact that they exist and can be exported when needed, is a sufficient practical support to exchange. It establishes confidence.

5716. That is to say, if I understand you rightly, the more gold you have in circulation in India, the greater the reservoir on which you have to draw for the support of exchange in a time of crisis?—Yes; and if the tap to that reservoir is in your own possession and can be controlled by yourself, you feel still more confident.

5717. The moment you need to export sovereigns for the maintenance of exchange, would sovereigns have any advantage for that purpose over bar gold, or other forms of uncoined gold?—Very little.

5718. So that if bar gold was hoarded in India and came out in a time of crisis, it would be equally as available for the support of exchange in that form as it would be if it came out of the hoards in the form of sovereigns?—Yes, to a large degree.

5719. Now with regard to the gold in circulation in India, do you think that it is very effective for the purpose of supporting exchange?—It is most effective.

5720. Do you think that in a time of crisis it would go to the support of exchange?—Unquestionably.

5721. You do not think that at such a moment there might be an increased instead of a diminished tendency to hoard?—I do not think so.

5722. Do you think that gold in circulation is as effective for that purpose as gold in the Secretary of State's reserves?—No, it is not so effective.

5723. For every 100l. in the reserve, there is 100l. which directly supports exchange; is that not so?—If the gold is freely in circulation it is an additional support to the reservoirs in the Government's possession and in the possession of the banks. Everybody has his own reservoir, so to speak.

5724. If a million were in circulation, some proportion only would go to support exchange?—Yes.

5725. Whereas if a million were in the reserve, the whole would go to the support of exchange?—If it was required, and if it was used.

5726. To that extent, gold in circulation is less effective for the maintenance of exchange than gold held in the reserve?—Yes.

5727. Do you regard a gold currency as desirable in itself, apart from its particular effect on exchange?—Yes.

5728. You do not regard it as rather a wasteful form?—No, I do not think so—not in India. It is wasteful in highly developed countries, but not in India.

5729. For what reason?—Because India is not so far advanced, and her circumstances in regard to trade and commerce are not similar to those of this country. A very large proportion of the population cannot read or write, and therefore are quite incapable of drawing cheques; they live far from railways, and altogether there are very many reasons for the use of a full value metallic currency in India which do not exist in this country at all.

5730. Would you go so far as to say that to the extent to which the population can be induced to use their currency notes or silver, it is a cheaper and better form of currency than gold?—No, I would not say that; speaking from the point of view of India, I would not say it was better.

5731. (Sir Robert Chalmers.) Is it cheaper, was the question?—No, certainly not, unless the notes are supported by securities and not by metal.

5732. (Chairman.) Now I want to refer to a subject with which you deal in Part III., paragraph 7 (c), of Appendix XXI. (page 558), and on which we touched yesterday. You say that fresh rupees should not be coined until the proportion of the gold in the currency is found to exceed the requirements of the public?—That is so.

5733. I asked you yesterday, but I do not think I got a very clear answer from you—perhaps I did not put my question well—what is your test for the needs of the public? How would you test those needs?—The test I should take would be the requirements of the traders for money to carry on their trade, European and Indian. That would, no doubt, find its expression through the banks.

5734. But not its whole expression through the banks. For instance, the Government must have sufficient rupees for the encashment of its notes?—Yes, rupees and sovereigns.

5735. It must be prepared to give rupees in exchange for sovereigns whenever they are tendered?—So long as it accepts that responsibility. It is a self-imposed responsibility.

5736. It must also have rupees to meet Council bills?—If rupees are demanded. Rupees may not necessarily be demanded. In my part of the world I am quite sure that some export firms would as soon receive sovereigns in payment of Council bills as rupees.

5737. To the extent to which rupees are demanded for any of those purposes, the Government must be prepared to meet it?—Yes.

5738. Would you be surprised to learn that those are the tests which the Government of India apply?—No, I am not surprised. I know it is the test, and I think I have drawn attention to the fact that although Government had decided on one policy, their attitude appears to be: After all, if the people do not want a gold policy, we will not press it.

5739. That brings me to another point. I think you call our attention to the view of the Currency Committee that "when Government has accumulated a sufficient gold reserve, and so long as gold is available in its treasury, it might discharge its obligations in gold instead of rupees." Is that what you are alluding to?—Yes.

5740. I will just pause at that point to ask you: Do you think the Government has accumulated a sufficient gold reserve already?—Yes.

5741. In this country, or do you mean the total?—To carry out its obligations in India in gold—do I understand the question correctly?

5742. I mean for all purposes?—For local purposes in India I think sufficient gold has been accumulated in India to enable the Government of India to carry out its obligations in gold.

5743. Without trenching upon any gold required as a reserve for the maintenance of exchange?—Yes, certainly.

5744. You seem to me to translate the opinion of the Currency Committee, that when that state of affairs has been reached the Government might discharge its obligations in gold instead of rupees, into an injunction to the Government of India so to discharge it?—Yes.

5745. You quote with disapproval the expression of policy of the Government of India that "while refraining from taking any steps to force the gold on the people, they discharge their obligations in sovereigns wherever payees so desire"; or, in other words, that they give the payee what he asks for?—Yes.

5746. Your opinion is that they ought, if I may use the expression, to force the gold upon him?—I do not like the word "force." My view is that if Government intend to establish a gold currency, they should take reasonable steps to carry out that policy, and not pause at every step in the policy to ask everybody if they want it carried out or not.

5747. Suppose the Government had come to the conclusion that there was no reason for establishing a gold currency, as exchange was being maintained without it, and could be so maintained, is there any reason then why they should attempt to press upon the public something which the public *ex hypothesi* does

* Report of Indian Currency Committee of 1898, paragraph 59 (C. 9390).

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not demand?—I should think Government had come to a wrong conclusion in those circumstances.

5748. So that your criticism on all this part of their policy is that it is their duty to establish a gold currency?—Yes, as recommended by the expert committee especially appointed to advise them in this matter, as accepted by the Secretary of State, and as accepted by the Government of India.

5749. Have you any reason for desiring the establishment of a gold currency beyond the additional support that it would give to exchange?—Yes. I think it would add immensely to the credit of the country generally if a gold currency were in circulation, and if the world generally understood that the currency of India was on exactly the same footing as the currency of England, and that there were no further currency risks in dealing with India than there would be in dealing with Australia or Canada. I think that would be a great gain to the credit of India.

5750. That really comes back to exchange again—to the support which such a currency would give to exchange?—Yes.

5751. You do not think the other measures taken by the Government of India and the Secretary of State are sufficient to give that public sense of security in the maintenance of exchange?—No.

5752. In paragraph 8 of Part III. (page 558) you say: "If the Government 'put their hearts' into this business, to use Professor MacLeod's expression, India will very soon have a gold currency in active circulation" and "the exchange value of the rupee will be as permanently secured as the exchange value of the English shilling, or the French 5-franc piece, or the silver dollar of the United States of America; and that, too, without the necessity of maintaining any Gold Standard Reserve"?—Yes.

5753. Do you mean that under those circumstances there should be no reserve in existence, or do you only mean that whilst it would be wise to have a reserve, there would be probably no call upon it?—I mean there would be no necessity to maintain what is now known as the Gold Standard Reserve. I mean that there would be sufficient gold in the possession of the banks, in the possession of Government, and in the possession of the public, to support exchange without extraneous assistance from what is now called the Gold Standard Reserve.

5754. You think that the banks would accumulate something in the nature of the Bank of England gold reserve?—I think everybody would have to hold gold, and the metallic portion of the reserves against the paper currency would be almost wholly in gold. There would be therefore plenty of gold available to support exchange without the assistance of what is now known as the Gold Standard Reserve.

5755. (Lord Faber.) As regards this very important question of maintaining the gold reserve, at present I suppose you think it is quite necessary to have a Gold Standard Reserve?—I think it is desirable to have a Gold Standard Reserve now until a gold currency has been thoroughly established throughout the whole of India. It is not so necessary now as it was five years ago.

5756. You would agree, I think, in believing that the very fact of having a Gold Standard Reserve renders it unnecessary to use it; the public are so satisfied with the condition of the reserve to maintain gold payments, that they will not come for gold as they would do if there were no such reserve?—The public will never come for gold until the balance of trade turns against India, and when the balance of trade turns, they will come for gold. I do not think they are influenced, or can be influenced, by any other consideration than the balance of trade. Of course, with the existence of the Gold Standard Reserve at present, there is more confidence than there would be without the existence of that reserve.

5757. (Sir Robert Chalmers.) In paragraph 7 of Part III. (page 558) you put most strongly that it is "weak and unbusinesslike" for the Indian Government to consider what the Indian public desire. Do you quite stand to that expression of opinion, or do you modify it in any way?—Not in the slightest in this connection.

5758. A bold autocracy would be your line?—In this connection, yes.

5759. Coming down to gold in the possession of individuals, you lay great stress on that; but do you think that the possession of gold in the form of coins in the pockets of individuals is a real strength to exchange which you can depend on when a crisis comes?—It depends on the nature of the crisis. If the crisis means the failure of the rain and the crops in India, leading to a reversal of the current of trade, yes, I think so, certainly.

5760. Have you got any support for that view in past history? Before you answer I will indicate what we have received in evidence—in the crisis of 1907–8 the Paper Currency Reserve lost 4½ millions of gold, which all went into circulation and, on your hypothesis, would have strengthened exchange by being available for support?—I do not think a parallel can be drawn from the example of 1907–8, because, owing to the terribly bad management on the part of the Government, they themselves depressed their own exchange down to such a point as to make it profitable to the public to hoard sovereigns.

5761. As a matter of fact, out of that 4½ millions only about a quarter-of-a-million came home; are you aware of that?—Yes.

5762. Therefore, that experience does not show that the passage of sovereigns into currency at any rate necessarily supports exchange and supports it in the hour of need?—That example affords no support to that theory in the slightest. May I be permitted to say that on that occasion the moment that I personally required sovereigns I went to the Treasury and asked for them, and the Government declined to give me sovereigns? I went to Bombay and the Government declined to give me sovereigns. I went to Calcutta and had a long talk with the Finance Minister, and I pointed out to him that he himself was breaking down exchange by omitting to let go the sovereigns. Still the sovereigns were not let go for several weeks. Government themselves, by their own action, created that feeling, that lack of confidence, which led to sovereigns being hoarded. It was Government themselves who destroyed their own scheme.

5763. When you get the alternative of payment in rupees or in sovereigns, do you not think that, in a time of crisis, there would be a tendency to pay in the less valuable form?—Not the slightest, if there is gold in circulation throughout the country; but if there is insufficient gold, or if there is a lack of confidence in the action that Government will take, then gold will assuredly be hoarded; but if gold is fully in circulation, if the metallic reserve of the paper currency consists wholly of gold, and if Government make it quite clear that they are not going to let exchange down themselves, then I think no tendency to hoard sovereigns, or to pay in rupees, would arise.

5764. Do you still attach importance to the possession of gold in the form of sovereigns by the people?—Yes, very much.

5765. Do you remember the late Lord Goschen took rather the opposite view in the speech he made at Leeds some years ago?—Yes.

5766. He spoke, I will not say with disrespect, of waistcoat pocket gold, and indicated his belief that when you wanted it it was not available?—That is so.

5767. You are aware of that fact?—Yes. I think that Lord Goschen's view was perfectly correct in respect of this country, but I think the circumstances in India are entirely different. The circumstances in India are these, that if there is a failure of the crops in a certain portion of the country, money has to be produced to remedy this state of affairs, and if the savings of the people are in the form of sovereigns, if the hoards are in the form of sovereigns, they have to be brought into the market, and so money flows into the market and will flow into the banks. But the conditions are altogether different in this country, where everybody recognises that the gold reserves are very slender, and where, in a time of crisis, there would be a tendency for everybody who was ignorant and ill-informed, to hoard gold.

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5768. Do you think there would not be that tendency in India?—No.

5769. (Mr. Keynes.) You say that sovereigns are now in circulation to the extent of over 40,000,000l. in India; is that approximately the figure of the total absorption of sovereigns by the public since 1898?—The source of that figure is the last report of the Paper Currency Department of 21st December last, and the extract is as follows: "The latest estimate of the number of rupees in circulation is 180 crores, and the figure for gold may be taken to be 60 crores. The growth of the circulation of silver has not kept pace with the growth of the circulation of gold." Those are the figures dealing with the current amount of the currency in circulation, silver and gold, which I have taken from the last official report of the Paper Currency Department.*

5770. Is that an unpublished report for the year 1912-3?—This is for the year 1911-2, and was issued on 21st December 1912. This is an article of my own from which I am quoting the words of the Comptroller-General of Paper Currency—not the report itself.

5771. The only figures I know are the figures of the absorption of sovereigns which are given in the return you speak of, and 40 millions is the approximate figure of absorption since 1907-8?—It is described in the return as the figure for "gold in circulation" which "may be taken to be 60 crores." If the report could be produced I have no doubt I could easily find the passage.

5772. (After examining the report which was produced.) I think I am right. If the figure be taken in its context it appears to be that of the absorption. The figure is obtained by adding up the sovereigns which have left the Government treasuries and have not come back in the period since 1907-8. It includes, therefore, those sovereigns which were in hoards and those sovereigns which have been melted. You would not maintain, would you, that the 40 millions were in circulation in the sense that they were being used as currency?—I have only the report to go upon. They are in circulation very freely in that part of India with which I am most familiar—West and Northern India; they are in everyday circulation there quite freely.

5773. Forty millions is the same circulation as the notes and about one third of the rupee circulation. You will agree that there is no experience which would justify any such estimate if you interpret "in circulation" as meaning "used as currency"?—The report I have just quoted gives the rupees in circulation as 180 crores.

5774. Perhaps I might read it. In the report there is a table which shows the amount of sovereigns which are issued from the Currency Department each year, and the amount which are returned to it. The balance which leaves the Currency Reserve is called the absorption. Those figures are added up on page 13 of the return to which you refer, and the word "absorption" is constantly used, but I see that it is the absorption of a longer period than I said. The absorption, taking these figures, appears to have been 46 crores between 1905-6 and the date of the report, and the 60 crores seems to be made up by an allowance for previous years. These figures, therefore, include the sovereigns in hoards and those sovereigns which have been melted. The words "in circulation" are, I believe, intended in this passage to mean "taken in absorption," and you would not maintain, would you, that it is at all probable that they could mean more than that?—I have no information to go upon other than the words extracted from the official report. If the official report has printed "circulation" for "absorption," it may be so.

5775. But you have no other evidence whatever?—No evidence other than that Paper Currency Report.

5776. You argue that the Government should put their hearts into the business of urging on a gold circulation?—Yes.

5777. Do you mean by that that they should refuse rupees to those who want them?—No.

5778. You say they acted weakly in only giving sovereigns if the Indian public so desired, and then you go on to complain of them because they have only taken the step of discharging their obligations in sovereigns wherever the payee so desired?—Yes.

5779. You do not imply by that that you want them to give sovereigns where the payee does not so desire, do you?—No.

5780. It is only in those cases where the payees are really indifferent that you urge that the Government should give sovereigns?—Quite so. A large number of the payees are perfectly indifferent, and if the cashiers of the Government, or the Treasury officers, handed out sovereigns, I think they would be quite content with them.

5781. Is that as far as you want the Government to go?—Yes.

5782. I thought in answer to Sir Robert Chalmers you rather implied that you wanted to go further than that, and that you wanted to force sovereigns?—I do not like to use the word "force." I would not say to a merchant who came to my office and said, "Will you please pay me in rupees?" "No, I insist on paying you in sovereigns"; but I might try to persuade him to take half in sovereigns and half in rupees, and in that way induce him to take a certain number of sovereigns. A similar line of conduct might be adopted, I think, by Government officers.

5783. If that policy were followed, you think we should very soon have in active circulation 100 millions?—I think that is quite possible.

5784. Do you include in that 100 millions, gold in the reserve of the Paper Currency?—No.

5785. You mean 100 millions in the pockets of the people, at the banks, and at the treasuries, apart from the Government reserves of gold?—And, let us say, in hoards.

5786. And in hoards?—Yes. The people of India are not always equipped with pockets, and it is quite a usual thing on the part of a native of India to keep his money in his house. Sometimes for the sake of security he buries it in the ground, and it is then generally referred to as a hoard; but what the native has in the ground under his bed is exactly the same as what we should carry in our pockets or keep in the house. The word "hoard" has a very misleading effect upon people who are not familiar with the customs of the country.

5787. I quite agree that you cannot draw a sharp distinction between circulation and hoards. Taking your figure of 40 millions, which I do not accept, as the present figure, that would represent an addition of 60 millions?—Yes.

5788. Do you imagine this would be chiefly at the expense of notes or rupees? Which would it take the place of?—I think it would largely take the place of rupees. It would not wholly take the place of rupees, but it would supplant rupees, I think, to a certain extent. There would be an additional growth of metallic currency habits as well to be taken into consideration; there would be a growth of the opportunity of the use of metallic money generally.

5789. So we should find Government with perhaps 60 millions of rupees on their hands, because I presume you are not assuming this would circulate as well as all the rest of the rupees?—It would take many years to do this, and of course the rupee circulation would have to be used up by degrees.

5790. In your memorandum you say "very soon"?—Yes.

5791. I am not quite clear about this: Is the 60 millions of additional gold to be wholly additional to the rupees now in circulation, or is it to be in diminution of the rupees in circulation?—I think it is largely additional.

5792. All the present rupees will still be in circulation?—Not all the present rupees, because large quantities go over the frontiers, to East Africa, and to different parts of Central Asia, and so get out of sight. Nobody knows what becomes of the rupees; they constantly disappear.

* Published in Gazette of India for Saturday 21st December 1912, pp. 2285-346.

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5793. The total circulation of India is variously estimated, but I suppose that nobody would put it at above 160 millions sterling. Would you put the present circulation at about that, let us say, 250 crores of notes and rupees together?—I have not been accustomed to mix the notes with the rupees.

5794. Then let us take them separately?—Taking the rupee circulation, I should think it might approximate—

5795. To 200 crores?—Yes, I should think so—more even.

5796. Say 130 millions sterling. You are supposing an addition to the currency of 60 millions; allowing for the fact that the currency has been very greatly increased—and you rather criticise that—lately, how long do you think it would take India to absorb another 50 per cent?—Possibly seven years to 10 years.

5797. You think seven to 10 years?—Yes.

5798. There has been a very exceptional increase of currency since 1900, has there not?—Yes.

5799. It has not amounted to such a high proportion as that?—India is advancing very rapidly indeed, and the extension of irrigation and the spread of railways is leading to trade developments, so I think she will require a great deal more currency in the near future than has been used in the past.

5800. Your policy is based on these two assumptions—first, that approximately the existing number of rupees will remain in circulation, and next that, in addition to those India will in seven to 10 years absorb 60 millions more of currency?—Not that the present amount of rupees will remain in circulation, because there is a constant disappearance.

5801. Apart from natural wastage?—The natural wastage and disappearance are continually going on. I anticipate that these 60 millions will be added to the currency in gold.

5802. I come now to the question of the reserve. Do you think that, even although the present circulation of rupees remains—when I say the present circulation, I mean reduced by natural wastage in the course of many years—the Government would not still be wanting reserves?—What kind of reserves—the reserves in the Paper Currency Department or the reserves in the Gold Standard Reserve?

5803. I am thinking of the Gold Standard Reserve?—I think when this amount of gold has entered the country the Gold Standard Reserve will be altogether unnecessary.

5804. India would still be in a different position to other countries if she had 100 millions to 150 millions worth of tokens in circulation, would she not?—I do not know. She would not be very different from France and the United States, who have a very large silver token currency in circulation.

5805. But nothing like that?—I forget exactly what the amount is, but they have a large silver token currency.

5806. In the case of the United States the amount of gold that they have is, as you know, enormous?—It is.

5807. And quite out of proportion to the sort of figure you are suggesting here?—Quite out of proportion.

5808. In the case of France it is also very much bigger than you are suggesting?—Yes.

5809. So there would not be a parallel?—The two cases would not be identically similar; they would only be roughly similar, in the sense that there would be a large token currency floating about.

5810. I think I have got the premisses of your proposals rather clearer now. I should like to pass on to your contention that if such a system is to be established, as I now understand you to wish, the system will be more stable than it is at present. You are supposing that out of a total currency of perhaps 250 millions 100 millions would be of gold, is that correct?—Yes, approximately.

5811. There was a further point put that I should like to refer to. I suppose that the sovereign in India is in respect of the purchasing power of the people equal to about a 5*l.* note in England—I do not mean it is

that exactly, but a sovereign in India is a large amount?—I do not quite follow the drift of that question.

5812. The drift of the question is this: Do you think that out of 250 millions, part of which will be in notes of high denominations, so much as 100 millions would circulate in coins of so high a denomination as the sovereign?—Yes, if by the word "circulation" you remember that I include hoards.

5813. Semi-hoards we will call them?—Yes, the semi-hoards of the people.

5814. We have a circulation of which, including hoards, 100 millions is gold, 120 millions we will say rupees, and perhaps 30 millions notes. A serious crisis arises in which some part of the circulation is returned to the Government, you would not maintain that only gold would be returned to them, would you?—It depends on the nature of the crisis.

5815. Whatever the nature of the crisis it would not be all gold?—No, probably not.

5816. If it were a crisis in which confidence were shaken in any respect people would rather keep the gold instead of the silver, would they not?—There might be that tendency no doubt.

5817. The Government could not therefore rely upon not having at any rate some important number of rupees returned to them?—Certainly.

5818. And it would have to maintain reserves by which they could cash rupees in terms of the sovereign?—If they maintain their present legislation.

5819. Under any system?—No. It is quite conceivable rupees might not be legal tender over 1,000 or 500.

5820. Would you allow the rupees to sink to a discount?—Such a thing is conceivable.

5821. Your proposal does include that, does it? You would not take steps to prevent rupees, which were circulating in our hypothetical case to the amount of 120 millions, from falling to a discount?—I cannot conceive any circumstances when 100 millions of gold is in circulation in India in which the token coinage would fall to a discount.

5822. If there were any surplus of rupees which people wanted to get rid of rather than get rid of sovereigns, the rupees would be at a discount, would they not?—I could not imagine such circumstances with such a large gold circulation.

5823. You have admitted that the Government would have some rupees returned to them?—Possibly a very large number.

5824. That is to say, the people would, to a certain extent, prefer to dispose of the silver?—Yes, some people would.

5825. If there were no facilities for their doing this, the silver must fall to a discount?—If the crisis were of such a nature that enormous numbers of people wanted to turn rupees into sovereigns, such a thing is conceivable. I do not think it would ever happen, and I cannot imagine it would happen, in practice, but as a theoretical problem such a thing is certainly conceivable.

5826. You would not recommend the Government to take any steps to guard against the possibility, then?—No.

5827. With reference to the Gold Standard Reserve, in paragraph 8 of Part III. of Appendix XXI. (page 558) you have described it as wasteful. You are aware that the Gold Standard Reserve was wholly built up out of the profits of the silver circulation, are you not?—It was originally built up out of the profits of coining silver.

5828. So that if the silver had not been coined, you can say if you like there would have been no need for this reserve, but it would not even have existed?—If the present legislation did not exist, the Gold Standard Reserve would not have existed.

5829. So the present system pays for itself?—I do not understand how a currency system can pay for itself. I do not quite know what that means.

5830. I mean simply that the expenses of maintaining the reserve are met wholly out of the profits of the coinage, and do not form any additional charge?—“There is no expense in maintaining the coinage”? I do not understand what that means at all. The effect of coining a large number of rupees and cir-

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culating them at a value very much above their face value, has left in the hands of the Government a large accumulation of money, but I do not know how you could describe that accumulation of money as providing a currency free of cost, or as maintaining the cost of the currency.

5831. I was trying to get at what you meant by calling the Gold Standard Reserve wasteful?—May I ask which paragraph you are referring to?

5832. Paragraph 8 of Part III., page 558?—It would become wasteful in the sense that keeping any metallic reserve is wasteful; the holding of any metallic reserve is a waste of money.

5833. (*Sir Robert Chalmers.*) Like the gold reserve in the Bank of England?—Yes; in a sense that is wasteful.

5834. (*Mr. Keynes.*) If the reserve were brought into existence through the existing system of currency, you cannot call this system wasteful as compared with a system in which the reserve would not even come into existence?—If it were not wasteful, it would not be wasteful; that is all I can say.

5835. I do not understand how that answers my question?—If a system of currency had not been introduced by which this reserve had been created, I could not have said that the reserve was wasteful, because the reserve would not have existed. When gold is freely in circulation there will be no necessity to maintain a gold reserve at all, that is to say, these 20 millions can be turned to account by being used in reproductive works, and therefore, instead of having a certain portion of it, whatever the metallic portion now is, lying idle, it may then be used profitably.

5836. My point is that these 20 millions or so that you use in this way have only come into existence because your policy has not been followed?—No, I cannot admit that at all. I do not know quite what you refer to as my policy.

5837. I refer to your policy of pushing a gold circulation and refraining from coining fresh rupees. If that policy had been followed in the last 10 years this 20 millions which you propose to devote to reproductive purposes would not exist?—Some portion of it would not have existed, certainly. It would always have been necessary to manufacture a certain amount of token coinage, and to the extent of the manufacture of token coinage there would be a surplus lying in the Gold Standard Reserve.

5838. I only wanted to be clear that you were not proposing to supplant rupees by gold, and at the same time to get the advantage of being able to use your Gold Standard Reserve?—There will be no future reserve, or at least, only a very small one. I would only utilise what already exists. The fact that it is wasteful, I think, is generally recognised from the circumstance that Government themselves have invested a certain portion of this reserve in securities.

5839. I want to take up now a point that I have already touched on. In reply to the Chairman you said the main reason for which you wanted a gold currency was to make exchange more stable, and in a further reply to him you said that you do not propose that the Government should take any steps to prevent rupees falling to a discount, though you think it is improbable they would so fall. In those circumstances do you think it is true that exchange would be more stable?—Certainly; I think greater confidence would be felt in the currency if a larger proportion consisted of gold.

5840. If it were known that there was this enormous quantity of rupees, and the Government had taken no precautions to prevent their falling to a discount?—I do not think that would have any effect on the public at all, so long as there was a very large gold circulation.

5841. Now let me compare this as regards stability with the alternative that might exist seven or 10 years hence, if the present policy is followed. I am taking your hypothesis that there is a greatly increased demand for currency—I do not myself think it could possibly grow on the scale you suggest, but assuming there is a considerably increased demand for currency—under the existing state of affairs a certain number of additional rupees would be coined, which would

strengthen the Gold Standard Reserve; and a certain number of notes would get into circulation for the larger payments, and that would strengthen the Paper Currency Reserve. Suppose the circulation is increased by 60 millions, then it would not be extravagant to suggest that the existing reserves would be doubled, because they have actually been built up to their present figure with a less expansion of currency than what you are contemplating. So that as regards stability you have got to compare your proposed state of affairs, with 100 millions of sovereigns in circulation or in hoards and a great number of rupees against which the Government takes no precautions, with a state of affairs in which they have reserves double what they have now?—Yes.

5842. Do you maintain that yours is a more stable state of affairs?—I think it is much more satisfactory.

5843. More stable?—Yes, more stable because inspiring greater confidence.

5844. You do actually maintain that at a crisis it would be less likely that exchange would fall under your system than under this one?—Infinitely less likely. If there was a crisis to-morrow, I do not think this gold reserve could be turned to account, or at any rate only a very small portion of it. I am perfectly certain that the portion of the reserves which lies in London in the form of securities would not be realised.

5845. I think that is getting on to rather a different point; you are now criticising the holding of securities?—Yes.

5846. Supposing you compare it with the state of affairs when the reserve is held all in gold?—I find it very difficult to imagine that, at any rate with a Government desiring to put a large portion of it in securities.

5847. That is quite a different argument. As to the alternative between securities and gold, it would be possible for the Government to pursue the main outlines of their existing currency policy, and at the same time to have it all in gold, would it not?—If I am asked the question, supposing the present gold reserves were doubled, and supposing the whole of that gold reserve were held in gold—

5848. (*Sir Robert Chalmers.*) The extra portion?—No, supposing the whole of the reserves were held in gold, then, if I understand Mr. Keynes' question it would be, do you not think in those circumstances that would establish confidence? I say, yes, certainly, if the whole of the reserves were held in gold. But I am very doubtful whether the Government would hold such a large amount in gold.

5849. (*Mr. Keynes.*) Would it be more stable than your alternative proposal?—If the gold were existing in the hands of the people or in the banks, then I think my proposal is equally satisfactory, in fact more so.

5850. Although you have admitted that of the amount returned some part might be rupees?—Yes, that is conceivable.

5851. You think that is a consistent state of mind in which to remain?—I think so.

5852. I should now, in conclusion, like to put the position to you in a rather more general way. I think that all thinking people would agree with what appears to be your contention, namely, that for large payments rupees are a very bad medium of exchange, and that it is not a very good thing to have such an enormous currency of expensive tokens as India has?—Yes.

5853. When I look to the future it seems to me that there are two lines on which she can develop—that which you suggest, and a state of affairs in which Government, instead of encouraging gold, encourages notes. I understand from other parts of Appendix XXI. that you are not opposed to the note issue, and that you do see some advantages from using more notes?—Yes.

5854. Are you clear that, if you compare a gold future and a note future as alternatives, there are not advantages on the side of the notes from the point of view of economy and elasticity, and not least from the point of view of stability?—There are advantages on the side of the notes, certainly.

5855. Is not your gold policy rather likely to kill a note policy?—I do not think so, unless circumstances

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prove that gold is more suitable to the requirements of a partially developed country like India, than notes. If the gold replaces notes, I think that is proof positive that the conditions of India are such that gold is more suitable as a monetary medium than notes.

5856. You are not proposing to let things take their course, but you are urging that the Government should actively further gold?—Yes.

5857. They could if they like, in the same sort of way that you describe, actively further notes?—Yes.

5858. It might make just the difference into which scale they put their influence?—I think Government influence should be applied in both directions, both in increasing the note circulation and in increasing the gold circulation.

5859. As an alternative?—I do not think so.

5860. There is a great bulk of small purchases, wages and so forth in which only rupees can be used; there is another set of payments in large amounts in which gold could be used, as is the case in Northern India to-day, or in which notes could be used as is a good deal the case in other parts of India. It is largely a matter of custom and of habit, and of which is made most convenient by the Government, as to which of those two things happens. Is not gold rather a rival to notes than to silver?—At first it is, but I do not regard it as a rival, looking at the policy generally. Just at the moment gold is likely to compete with notes at first. I regard the currency in this way; the development should proceed step by step from silver to gold to notes; that is the natural development. If I am asked if a note circulation is not the most economical form of currency, I say yes, certainly; once we have stepped over the gold step, we will develop the paper step. At present the conditions of India are such that I think she wants to be taught how to make the fullest use of the gold currency before we go on to the notes; but both are desirable unquestionably.

5861. May I say that that theory of the evolution of money is not an historical one? It has not actually been the case, has it?—I think so.

5862. That most of the nations of the world have gone through those stages?—I think most nations of the world have tried to use both metals, and most nations of the world have given it up as a bad job and concentrated their attention on gold and made silver a subsidiary coinage. I think the most advanced nations of the world have come to the conclusion that paper is still more economical than gold, and are using as much paper for gold and as little gold as possible.

5863. Can you name any country except Egypt in which gold has ever formed the principal means of exchange?—If by the principal means of exchange you include the whole of the nation's transactions, no.

5864. Such a proportion as would be represented by gold, if your policy was successful in India?—I think England is a good example of a considerable use of gold.

5865. But in proportion to the whole transactions it would be a fraction of 1 per cent.?—If the whole of the wholesale transactions of the country are concerned, I daresay possibly so; but in India you have 315 millions of people, a very large proportion of whom must handle a metallic currency.

5866. Of course, we all know the state of affairs in England, where the cheque system has made the position of gold and silver relatively unimportant; but apart from that, taking more comparable cases, can you quote any instance which even appears to support your view?—That gold is used more freely than silver?

5867. That gold is used as the principal medium of exchange?—No, I think not.

5868. Or any country in which that ever has been the case?—No, I think not.

5869. So that this process of evolution by which you, first of all, use chiefly silver, then chiefly gold, and then chiefly notes, is a theoretical description?—I do not think I said use chiefly silver and then chiefly gold and then chiefly notes; I meant that the experience of modern nations was such that attention was concentrated gradually on silver, and then on gold, and

then on paper. I do not think any country has used gold more than silver or more than paper.

5870. By "attention being concentrated," do you mean in controversial writings or in the currency?—I mean as a mainstay of the currency.

5871. Where has gold been the mainstay of the currency?—Gold is the mainstay of the currency everywhere in the world, as far as I am aware.

5872. Could you mention some particular country?—I cannot mention any country where it is not; for example, gold is the mainstay of the currency in England.

5873. There is an ambiguity in the term; "the mainstay" may mean that the country's reserves are held in gold?—That is what I call the mainstay.

5874. What you are proposing in India is that there should be no reserves in gold?—That no Gold Standard Reserve should be held. I am merely suggesting that this particular amount that now exists, the gold in the Gold Standard Reserve, should not be continued in that form. Of course, there will be gold reserves in the banks and against the paper currency.

5875. I was not speaking of some country in which the reserves were held in gold, but of some country in which the main currency, from the point of view of the actual media of exchange, was gold?—I cannot certainly name a country where, taking the country as a whole and the transactions as a whole, gold money is used more than any other currency.

5876. You are proposing, therefore, a state of affairs in India to which we have no parallel anywhere else?—No, certainly not. I do not suppose gold would be used more as currency in India than any other media of exchange. All over the world the great bulk of the population are poor, and the great bulk of the population use silver coins for currency purposes in all the countries.

5877. I was trying to get at the basis of your theory that there is a sort of natural progression from silver through gold to paper, and I say there is no historical foundation for that view whatever?—History appears to me to support an exactly opposite conclusion; that is all I can say.

5878. As long as Governments were thoroughly untrustworthy nobody liked paper currency, but since Governments have become more trustworthy in these matters, all countries have got as quickly to that as they could, leaving out the gold step. Is that not true?—I think the force of circumstances has compelled countries to use paper, not that they particularly prefer it, but I think they have been so compelled undoubtedly.

5879. For whatever reasons, would you say that is a correct account of what has happened?—Yes.

5880. The point of my last few questions has really been simply this—that there is a great deal to support the view that the alternative is not so much gold or silver as gold or notes, and, historically, recent experience on the part of nearly all countries is in favour of notes rather than gold. If you are to put it on the historical basis, or on the experience of other countries, then the answer would be in favour of notes rather than gold. I think you have conceded as much to me as this, that if it were true that it was between notes and gold, you would prefer notes?—Not for India in its present state of development. If I had to select between notes and gold for a currency medium for India in its present state of development, I should certainly advise every Indian to have a gold coin in his pocket and to pay gold and not notes.

5881. What would be your reason for that?—Because I think a country using a gold currency would command very much greater respect in the world than a country which did not use a gold currency, and only had paper and nothing behind it.

5882. There is only one country that has actual gold as the principal medium of exchange; do you think the prestige of Egypt stands higher than that of most nations and countries?—I cannot say that. I am sure the prestige of India would stand very much higher if she had a gold currency in free circulation all over the country.

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5883. (*Sir Shapurji Broacha.*) I asked you a question about 40 millions of silver coin, and you said you meant 40 millions in rupees and not in gold. I then reminded you that there were only 18 millions of silver taken to India?—I remember; that was in the years 1906–7.

5884. You say in one of your letters that “40 millions left with the world at large for the price of the silver created a plethora of gold in the world and created a boom in the world”; so you meant 40 millions of gold?—I do not know from which exactly of my many productions on the subject of the currency Sir Shapurji is quoting. The amount of rupees that were coined from 1905 to 1908 I have described as the heaviest coinage on record in the history of the world. It was over 62 crores of rupees. That figure is drawn from the official records and can be verified.

5885. I am quoting from a letter you wrote in November 1912 to which I replied, and in which I wrote about this 40 millions of gold; but I could not challenge your correction at the time, and so I took your explanation as correct; but now I find that it was not so. You actually said “40 millions left with the world,” by which you meant “40 millions of gold left with the world at large for the price of the silver created a plethora of gold in the world and created a boom in the world?”—I am not quite sure what point Sir Shapurji is making. I understand him to mean that in a letter of mine written in 1912 I asserted that 40 millions sterling worth of new silver rupees were brought into existence, and he does not think that 40 millions sterling worth of rupees were brought into existence. I thought it was. I have nothing further to say. I think that if the total currency is increased to the extent of 40 millions, and circulates at that face value, it is equivalent to 40 millions.

5886. (*Chairman.*) According to Mr. Abrahams' figure, between 1905 and 1908 there were 64 crores added, which is 42 millions sterling?—I wrote “over 62 crores,” and probably at the time I wrote I had not got the exact figures. Sir Shapurji is evidently arguing that 42 millions worth of token money is really not worth 42 millions, but is only worth 20 millions, which is perfectly true of its metallic value.

5887. (*Sir Shapurji Broacha.*) What you have said is that 40 millions of gold was left with the world at large and that made a boom in the world; and now you say that 18 millions created a boom in the world, and American securities and everything else in the world rose?—I think my figures are all right as far as I am able to make out at present.

5888. (*Lord Faber.*) I think the difference between you is that one is talking of the face value of the coin in circulation and the other is talking of the bullion?—Yes.

5889. (*Sir Shapurji Broacha.*) It did not create a boom in the world, did it?—That is a matter of opinion. I think it contributed to the rise in prices which has been in progress ever since.

5890. Has everything gone up in the last six years? Not cotton, which was 7d. in 1904, and came down to 3½d. in 1905–6. It was a matter of production and demand?—Individual commodities may have sunk in price, and yet the general price level may have risen.

5891. You said in reply to Mr. Keynes that the exchange bank managers' opinion is not to be taken into consideration, because they are interested and look at exchange simply from the point of view of profit?—I did not make exactly that statement.

5892. Is that not your opinion?—No, certainly not. My opinion is that the exchange bank manager to whom you sell Council drafts finds them a very great convenience in the conduct of his business, so it is hardly to be expected that he would criticise that arrangement.

5893. I may tell you that they make the same profit in their business on the Secretary of State's Council bills when he sells bills at $\frac{3}{4}\%$ as when he sells at $\frac{1}{2}\%$?—I do not know about that. You may have an inside knowledge of the workings of these exchange banks which I do not possess.

5894. Their opinion is not to be impugned, and it is an honest opinion, because it makes no difference to their profit whether the sales are at $\frac{1}{4}\%$ or $\frac{1}{2}\%$?—I think from practical experience that it makes a very great difference. Any bank manager, if he knows that he can at any day of the week put himself in funds by the simple process of buying rupees from the Secretary of State, knows that is a great convenience to him.

5895. (*Sir Robert Chalmers.*) But the price does not make his profit?—No, it is not the price, but the convenience of being able to get money at a moment's notice.

5896. (*Sir Shapurji Broacha.*) What they generally get is the difference between the price at which they buy from the Secretary of State and the price they buy bills at for export, and the London discount rate, so it does not matter whether the exchange is $\frac{1}{4}\%$ or $\frac{1}{2}\%$?—In that case, not a bit.

5897. Their profit being only the difference between the buying and selling rates?—Exactly.

5898. So it would be no advantage to them, in giving their evidence, to mislead the Commission?—Not a bit.

5899. I thought you were rather, may I say, unjust in impugning their creditableness in what they said to the Commission?—I have no knowledge of what the banks have said to the Commission.

5900. You are a merchant, and you know the position of these things yourself?—I know that a convenience of this kind is a convenience, and I should hardly expect those who benefit from the convenience to criticise it very severely.

5901. It is the same with exporters and importers. You do not mind, when you buy wheat, what the exchange is, so long as you can make your 1 per cent. or 2 per cent. profit?—Not a bit.

5902. It may move alternately one way and the other, but to the man who does a commission business like yourself, or to a bank, it makes no difference what the exchange rate is?—Not from day to day.

5903. You say you have to make your calculations for a month or for a week ahead as to the rate you do your business at, but in which country have they not to make that calculation? Do you not see in the papers one day that the Paris exchange is one point against us, and the next day it is two points in our favour? That is a thing which a prudent merchant will take into account, and the Secretary of State's differences are not more. I think you said that Government were not able to sell their bills between 1893 and 1898 at 1s. 4d.?—I do not think I made any assertion of that kind, but I think it is approximately correct.

5904. You gave as one of the reasons that the market was flooded with rupees?—Yes, at the beginning of the period.

5905. Supposing you had in the currency 50 crores of rupees, and the market was flooded at the time, yet if your export was 50 crores and your import 20 crores, how would it affect the rupee at all—the balance of trade must be paid?—I do not know exactly what the question is.

5906. You thought that the rate of exchange did not lift itself up because Government flooded the market with rupees?—That is my opinion.

5907. But I say that if the export was 50 crores and the import, say, 10 crores, or if the export is 60 crores and the import 30 crores, how would the rupee interfere with the exchange coming up? Foreign nations must pay, must they not?—Yes.

5908. Yet with all that, Government were not able to lift the exchange to 1s. 4d.?—Because the circumstances could not be as your hypothesis suggests.

5909. There may occur a year when the Secretary of State is not able to maintain the exchange at 1s. 4d.; on your policy what would you do?—Ship sovereigns from India.

5910. On which account?—Sovereigns would be shipped from the Treasury balances in India to the Secretary of State in London on his account for the payment of home charges.

5911. From the Government of India?—From the Government Treasury balances.

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5912. Do you remember the last crisis?—I remember the crisis of 1907–8.

5913. There were about $4\frac{1}{4}$ millions of sovereigns issued then, and only a quarter of a million came to the help of exchange, so that instead of the people giving out sovereigns, they took them away?—Yes, owing to the scare created by the Government's mismanagement.

5914. Do you know that the Government, as a matter of policy, pushed the sovereign between 1900 and 1907 until sovereigns went to a discount?—The sovereigns did not come out between 1900 and 1907.

5915. At the time of the crisis, notwithstanding all the accumulation of sovereigns in the hands of the people, not a single sovereign came out, but, on the contrary they applied Gresham's law, and the cheaper metal was driven out for the dearer?—The Government themselves depressed exchange to below 1s. $3\frac{3}{4}$ d., and thereby made the sovereign so valuable that the people commenced to hoard it. But that was entirely owing to the Government's own action in failing to release the gold when it was required.

5916. It did not help exchange then?—On the contrary, Government very nearly broke the exchange down altogether.

5917. Do you think when exchange is falling, or when exchange is wanting in confidence, any gold will come out for rupees?—Certainly.

5918. Do you know the law that the depreciated metal will be thrown against the appreciated metal?—I am very familiar with it.

5919. You say that there is a redundancy of token coins?—To which year do you refer?

5920. Take any year you like?—I do not think there is a redundancy of the rupee currency at this moment.

5921. Then why do you prevent Government from buying silver?—I am not preventing Government from buying silver.

5922. Do you know what is the amount per head of population in the Currency Department now in rupees?—I should think it would be very small.

5923. Do you think it is as small as in the Bank of France? What is the number of 5-franc pieces per head of population there?—I have not the remotest idea.

5924. Do you know what is in circulation in France per head—it is 25 rupees. Taking Mr. Keynes's calculation of 164 or 165 crores in circulation, that would come to something like $5\frac{1}{2}$ rupees per head in India. You know, of course, that business in India is a cash business?—Yes, very often.

5925. They have not the instruments they have in Europe, such as bills, to take the place of cash?—Not so many of them, but there are some.

5926. Therefore they require more money for exchange?—They do require more coins.

5927. They should have more coins per head than any civilized country, because civilized countries have other instruments?—That does not in the least follow.

5928. It must follow?—Not in the least. I think that depends on the amount of trade that they do.

5929. It does not matter at all what trade they do. India has a very large trade, more than any other part of the British Empire, and I say there is no large rupee circulation at all?—I have no complaint to make of the rupee circulation at the moment.

5930. Do you not think that if France has 25 rupees in circulation India should have 10?—I do not think any comparison can be made between the economic condition of France and the economic condition of India.

5931. Do you know that any other gold is dearer than sovereigns to bring out to India?—I think it all depends on circumstances.

5932. Give me the circumstances under which it can be cheaper?—Ordinarily, it is cheaper to import sovereigns than gold in any other form, but it depends on the betterness of the gold.

5933. I say to bring in gold in any other form, no matter what the betterness may be, is dearer than to bring in sovereigns?—I can hardly agree with that conclusion.

5934. (*Sir Robert Chalmers.*) Would it be cheaper to take 10-ounce bars from Australia?

5935. (*Sir Shapurji Broacha.*) Show me how you can bring gold cheaper than in the form of sovereigns?—If depends on the betterness of the gold. Ordinarily it is not cheaper to bring uncoined gold; it is ordinarily cheaper to bring sovereigns.

5936. (*Lord Faber.*) Do not forget that the price of gold in the London market is never below 77s. 9d. That is the standard at which the Bank of England has got to take it. Therefore, Sir Shapurji is right there, because you cannot get less than a certain price for sovereigns?—I understood Sir Shapurji's question to be whether it was possible to import gold into India in any cheaper form than in the form of sovereigns, and I say that it depends upon the quality of the gold bar that is imported. It would not, of course, pay to import polished gold bars. If the rough gold bar contains a larger percentage of alloy than a sovereign, then it might be cheaper to import such gold bars, but if the gold bars contain metal of the same fineness as the sovereign, then it is usually cheaper to import sovereigns than to import the gold in any other form.

5937. (*Sir Shapurji Broacha.*) Let me say that you are absolutely wrong, commercially?—I do not think so.

5938. (*Lord Faber.*) The price of bar gold varies in the London market, but the price of sovereigns never varies?—I take that from you.

5939. (*Sir Shapurji Broacha.*) You say in paragraph 5 (a) of Part II. of Appendix XXI. (page 555) that no Council drafts should be sold under 1s. $4\frac{1}{8}$ d., but now you have modified that and you are ready to give a grace to the Secretary of State to sell up to about 1s. $4\frac{1}{16}$ d.?—That passage means that he ought not to have sold at less than 1s. $4\frac{1}{8}$ d. in 1898–9. That is what that paragraph refers to. You will see it has reference to the previous paragraph stating the policy which was followed in 1898.

5940. It does not refer to subsequent times, you say?—No.

5941. Can he sell now, then, at any rate he likes?—Yes, but I think 1s. $4\frac{1}{16}$ d. is a suitable rate.

5942. Is he to be bound to your dictum of three years ago when you said it should be 1s. 4d.?—The 1s. $4\frac{1}{8}$ d. referred to the circumstances in those days.

5943. You know you wrote letters to the papers, including the "Economist," stating that the Secretary of State should not sell over 1s. 4d. and must sell to all comers? That is what you advised the Secretary of State to do? Supposing he had done that then, would he be pilloried for not doing so now?—My present recommendation is that the rate should be 1s. $4\frac{1}{16}$ d.

5944. You have changed your opinion, then, in the last three years?—Yes; that is different to what I suggested five or six years ago.

5945. No, three years ago?—I am not quite sure about that.

5946. In July 1910, you sent a letter to the "Economist," when the Indian papers and the Indian chambers would pay no heed to your suggestion?—It is quite possible.

5947. So you have changed your opinion now?—The rate that I now recommend is 1s. $4\frac{1}{16}$ d.

5948. We cannot both do what you recommend at one time, and what you recommend at another time?—Circumstances change.

5949. So I say; and yet you ask us to follow the report of the Fowler Committee in its entirety?—Yes.

5950. Suppose they are able to bring gold from Australia or from Egypt where they can get it to-day at 1s. $4\frac{1}{16}$ d. I suppose you have read in the papers that the Government has been receiving gold from Egypt?—Sometimes.

5951. Is now?—I do not know what is happening at this moment. Do you say that gold is coming from Egypt to London?

5952. Yes, that is the principal country where gold is coming from. It means that gold could be sent to India at 1s. $4\frac{1}{16}$ d.?—Quite possibly.

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5953. Suppose gold is coming from Australia, Egypt, and other places, on the basis of 1s. 4 $\frac{1}{8}$ d., and rupees are wanted, what should the Secretary of State do?—If the Secretary of State in those circumstances is short of funds, it would be necessary for him to reduce the rate, or to ship sovereigns home from India.

5954. And lose 1 $\frac{1}{4}$ th?—He would have to adjust matters.

5955. He would have to do that in order to follow out your policy of making a profit?—In order to follow out my policy of getting the best possible terms for India.

5956. You have laid down the dictum that the Secretary of State should not have more money than three millions, and that he should not sell under 1s. 4 $\frac{1}{8}$ d.; the Secretary of State would require about eight millions between April and November, would he not?—Quite possibly.

5957. What is he to do for that extra five millions—he will not have any more money left to disburse?—I think I have already suggested that where the Secretary of State is unable to sell his drafts it may conceivably be necessary to ship home gold from India; or if his exchange be fixed at a rate which precludes him from selling drafts, it might be necessary to re-consider the rate.

5958. The Secretary of State is not able to sell in the meantime between April and October at the price you fix for him?—Then let him ship home sovereigns from India.

5959. If there are any?—Certainly.

5960. But if there are not any?—If there are not any sovereigns in India, exchange will collapse.

5961. Then your remedy is that the stability of exchange will collapse in circumstances like that?—No, I have not suggested any collapse.

5962. Do you know that for such times Russia leaves 60 millions in Europe in charge practically of France and England?—You gave me that information this morning.

5963. Having regard to possible contingencies should not the Secretary of State have a year's drawings in advance?—I do not think it is in the least necessary.

5964. Yours is a hand-to-mouth policy. Where has the Fowler Committee fixed the exchange at 1s. 4 $\frac{1}{8}$ d.; is there any paragraph in which it has fixed it?—I do not think so.

5965. Have you any support for these opinions of yours in India?—Yes.

5966. Where?—In the Bombay Chamber of Commerce.

5967. The Bombay Chamber of Commerce are not supporting you, are they?—In several respects.

5968. Not in any one of these respects that I have been asking you about; nor the Calcutta Chamber of Commerce?—I do not know exactly to what particular point you are referring, but in several respects the Bombay Chamber of Commerce take the same view as the Karachi Chamber of Commerce and the Upper India Chamber of Commerce; in fact, all the Indian Chambers of Commerce, except Bengal and Madras, take the same view as the Karachi Chamber of Commerce on several of the questions which this Commission is enquiring into.

5969. (*Sir Robert Chalmers.*) Have you got any support outside Karachi for your fixed rate?—I do not think that question has been widely investigated, but some years ago when I personally suggested a fixed rate it met with no support generally.

5970. (*Sir Shapurji Broacha.*) You say in paragraph 4 of Part II. of Appendix XXI. (page 555) that according to Professor Dunning MacLeod, a gold standard without a gold currency is unthinkable?—That was Professor Dunning MacLeod's opinion.

5971. That has not been supported by the Fowler Committee?—The Fowler Committee, that is, the Indian Currency Committee, looked forward to a gold currency as an essential part of the scheme.

5972. I think there is no gold currency in any country at all. You put down the Indians for savages for not having a gold currency, but where is there a

gold currency—in England?—I think there is a gold currency in England.

5973. According to you they have not increased their gold reserve by a million in the last 10 years?—The Bank of England has not increased its reserve very much in the last 10 years.

5974. That is not a very good example to follow, is it?—I think it is not a good example for India to follow.

5975. Beyond England is there any country where there is a gold currency?—Yes.

5976. Where is it?—There is a gold currency in Australia, and in Canada and in South Africa.

5977. No; gold is not used in Canada, and South Africa does not want a mint?—I do not know what the authority for that assertion is.

5978. Do you know that last December the people of Germany could not get gold under a premium of 1 per cent.?—I do not know what happened last December.

5979. Suppose there is a gold currency and Government is not able to supply against rupees, what then? If you have a gold currency that means you have to give gold against all rupees tendered, does it not?—No.

5980. What is it then?—There is no connection between a gold currency and Government supplying gold for silver. I do not think the Government supplies gold for silver in any part of the world.

5981. Allow me to differ from you. A gold currency means that you have to give gold against all rupees tendered?—I do not attach that meaning to it myself.

5982. What meaning do you attach to it?—By a gold currency I mean gold used for the purpose of trade as between buyers and sellers.

5983. That is not a gold currency; a gold currency means that you have to give sovereigns against all rupees tendered?—I have never heard that view of the question put forward before.

5984. You have cheques and other instruments in England, so that no more gold is used here than the people have in their pockets; but if the Bank of England were asked against the tender of notes to give gold, the Bank of England is bound to give gold in accordance with the Act of 1844?—I believe that to be quite correct.

5985. That is the meaning of a gold currency?—I have never suggested that a gold currency should mean that the Government of India should be under an obligation to supply gold in exchange for silver.

5986. If language is meant to give a meaning to words, then a gold currency means that?—I have never heard such a meaning put to it before.

5987. (*Sir James Begbie.*) You think that the sovereign is the best gold coin to use as currency in India?—Yes.

5988. Would you also issue a subsidiary gold coin?—I do not think so.

5989. You would only issue a 15-rupee coin?—I think so at present. If subsequent experience showed that it was desirable that a smaller coin should be coined, then I should have nothing to say against it, but to start with I think it would be wise to take the coin that is already in circulation and is known.

5990. Is it not the case that 10-rupee notes are more favoured in certain districts than in others?—Yes, I believe so.

5991. And the same thing may also be said of the 5-rupee notes?—Yes.

5992. Do you not think it is possible in those districts where metallic currency is wanted, a 10-rupee coin might encourage the use of gold?—Yes, I think it is quite possible.

5993. (*Mr. Gillan.*) It is quite obvious from the questions that were put to you by Sir Shapurji that the term "gold currency" is one that has different meanings to different minds; but you have, I think, defined what you mean. Will you look at Part VIII., paragraph 2, of Appendix XXI. (page 568)? There you speak of a "pucca gold currency system of the British type"; that is what is in your mind?—Yes.

5994. The first thing I wish to ask you about that is whether you consider that that is really in accordance

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with the recommendations of the Fowler Committee?—I think so.

5995. In paragraph 54 of their report they said that they looked forward “to the effective establishment in India of a gold standard and currency”?—Yes, that is so.

5996. But they went on in the next paragraph to point out that “Under an effective gold standard rupees “ would be token coins, subsidiary to the sovereign. “ But existing conditions in India do not warrant the “ imposition of a limit on the amount for which they “ should constitute a legal tender; indeed, for some “ time to come, no such limitation can be contemplated.” Then they conclude in paragraph 59 that things being as they are in India, they must be content with a system such as exists in France and the United States?—That is so.

5997. How do you reconcile your present recommendation with those recommendations?—I think those recommendations were very wise when they were made. I understand them to mean that in those days, when the question of introducing a gold currency was being considered, the members of the Committee did not think it possible to impose a limit on the amount for which rupees should be legal tender; but I take it that in course of time when there is plenty of gold in the country it will be possible to impose a limit on the amount of token coinage that is legal tender, and that is the direction in which I imagine India is progressing. The time will come when the gold is circulating so freely that it will be possible and desirable to impose a limit on the amount of rupees that are legal tender.

5998. Then this British type of system that you speak of is not a thing that is immediately obtainable, but it is something to look forward to in the future?—In the near future.

5999. You would not, as a matter of fact, have that type of currency system until you are able to make the rupee a subsidiary coin?—I would not suggest that a limit should be imposed on the amount of rupees that are legal tender until such time as there is a more general currency of gold than at present.

6000. But you recognise that the relegation of the rupee to a subsidiary qualification is a necessary condition before this particular type of currency system which you have in your mind can be established?—Yes.

6001. I am not clear that I quite understand the general grounds on which you favour a gold currency. You do not object to notes, do you?—No, provided they are based on gold.

6002. Why should it be more necessary to convert silver notes, so to speak, into gold rather than paper notes? In the case of your silver currency you have a currency which carries, at any rate, a substantial portion of its value, and you have got to provide only against the margin of difference, whereas in the case of notes you have to provide a reserve covering the whole value?—That is so.

6003. Then why should you lay particular stress on converting your metallic currency into gold?—Because I think that in the eyes of the world a gold currency commands more respect and establishes greater confidence than a silver currency.

6004. What would your proposals actually involve? I think you have already said, in reply to Sir Shapurji, that they do not involve the undertaking by Government of any obligation to give gold for silver under all conditions?—No.

6005. As regards the practical steps to be taken, Government cannot refuse, as a matter of fact, to give rupees when a demand for rupees is made?—Not at present.

6006. It cannot refuse to coin rupees in order to meet those demands?—Not at present.

6007. I understood from an answer you gave Mr. Keynes that in making payments it can show a preference, as it were, for gold, but only when the payee is, so to speak, indifferent?—I think it might go a little bit further. I think Government might use a little gentle persuasion to facilitate the further use of gold. I would not go so far as to suggest that Government should force gold upon reluctant payees,

but where a payee is more or less indifferent, Government can persuade the payee to accept payment in gold, or even where the payee demands payment in silver it may be suggested to him that he can take a portion in gold and a portion in silver. I would not carry the compulsion to the extent of declining to give the payee silver.

6008. (Lord Faber.) Would you do what they do in English country banks who have a currency of their own? When a customer comes to the counter and presents a cheque for 10*l.*, the cashier, if the customer says nothing, gives him two notes, and then it is for the customer to say, “I would rather not have the notes; I will have something else,” and he gets it?—Exactly; in the same way I should give the gold, and if the public said they would rather have rupees, very well, let them have it.

6009. (Mr. Gillan.) But the Government should tender gold?—Yes.

6010. I take it your general position is that you look forward at some future time to the establishment of the particular kind of currency you favour, but at the moment the only recommendation you can make to Government, apart from the establishment of a gold mint, would be that they should use persuasion of the kind that you have mentioned and tender gold in making any payment they have to make?—Yes.

6011. That is the only practical point at the present moment?—Yes—that Government should encourage the use of gold as currency—not force it, but encourage it.

6012. In connection with the questions put to you about giving rupees and coining rupees, there is one question I was going to ask with regard to paragraph 4 in Part V. of Appendix XXI. (page 562). Incidentally, there you say, “The silver coinage ought to be replenished regularly and continuously in small sums (so “ as not to inflate unduly the local currency)” : how is that to be managed?—If Government were to coin regularly a fixed amount, say 5,000*l.* a week, and they found that the silver proportion of the paper currency reserve was steadily increasing every week, I should then understand that Government are providing too much token currency, and I should cease coining token currency under those circumstances. What I would suggest is that the Government should buy silver regularly every week, and continuously coin token currency to replenish the coinage; but if after, say, a year the amount coined showed that the amount of silver in the paper currency reserve was increasing unduly, I should stop that policy. I should consider in that case that the currency was being unduly inflated.

6013. Would there be any difference in the amount of rupees that actually went out into circulation?—Any difference under what circumstances?

6014. Under the practice which is at present followed by the Government of India of coining occasionally, and under the practice you recommend of coining continuously?—No, not very much difference. The only difference would be that in one case the supply of token coinage would be regular and methodical, and in the other case it is irregular and spasmodic.

6015. Do you mean in supplying the currency reserve?—In supplying token currency—in creating token currency.

6016. (Sir James Begbie.) The demand for silver currency in India might be irregular and spasmodic too?—Yes.

6017. (Sir Robert Chalmers.) Would not the demand be your chief guide?—If the Government do as they have at present been doing, waiting, perhaps, for years until they at last decide that the time has come to coin more silver, I think that procedure is undesirable, because it enables silver speculators to force up the silver market. I think it is desirable to coin a small quantity regularly, and to keep the currency supplied.

6018. (Sir James Begbie.) When would you resume the purchases of silver under your scheme?—Straight away.

6019. Under what conditions?—A small regular amount every week.

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6020. What would be the time to begin these purchases?—At any time—to-morrow.

6021. Would it happen because the silver reserve was falling?—No. I should suggest that the coinage goes on regularly week by week in small quantities, attention being paid at the same time to the amount of silver in the Paper Currency Reserve.

6022. (*Chairman.*) Suppose the Indian Government had been pursuing that policy when the crisis of 1907-8 came upon them; at that time the public, instead of presenting a demand for more rupees, returned rupees?—That was so.

6023. Would you have stopped at that moment?—Instantly; in fact, I should have stopped before that moment; I should have stopped when I saw that the proportion of silver in the Paper Currency Reserve was mounting up.

6024. You would have stopped as soon as they ceased to take rupees out, without waiting for them to bring rupees back?—Yes.

6025. And you would not have begun again until they began to take rupees out?—Yes.

6026. If in the meantime an unusual number of rupees had accumulated, you would postpone your recommencement until that unusual accumulation had been worked off?—Yes, if it were large.

6027. Would it have made a very great difference if they had pursued that policy?—It depends on the amount that was coined week by week.

6028. It took them a long time to work off the accumulations which resulted from the crisis of 1907-8, did it not?—Yes, many years.

6029. You do not suggest that in the interval between that and the time when they coined again, there was any shortage of rupees, do you?—No, I do not think so.

6030. Possibly then the Indian Government might say that in effect they had carried out your policy, that when the demand began again it was a very unusually large demand, and that therefore they had to buy at once, and immediately, very large sums?—Such a point of view, of course, I can understand, although I do not concur in it.

6031. You think they might well have begun by small amounts?—Yes. Might I give Mr. Gillan the information he asked for yesterday, which I was unable then to produce? Mr. Gillan asked that I should give him the periods when the cash balances of the Government of India were as low as 7 millions. I find these are the dates: In 1905, in the months of November and December; in 1906, in the months of November and December; in 1907, in the month of December; in 1908, in the months of November and December; and in 1909, in the months of October, November, and December. On all those occasions the cash balances of the Government of India were in the neighbourhood of 7 millions to 8 millions.

(*Mr. Gillan.*) I am sorry, Mr. Webb has had unnecessary trouble, because he is looking at the balance at a different time of the year. That is the time of the minimum balances in every year.

6032. (*Chairman.*) You suggested 7 millions as a maximum, I think?—Yes, as a working balance.

6033. Which ought not to be exceeded?—If it can be avoided.

6034. If the Government of India made an endeavour not to exceed that figure, or only to exceed that figure by a very small sum at one time of the year, would it not follow that it would have a very much less sum at another time of the year?—I can quite conceive it.

6035. In other words, are you not measuring the maximum demand on the balances of the minimum?—I do not think it is a question of the demand on the balances; it is a question of the amount of cash which Government shall keep in its till. In those months it keeps 7 millions or 8 millions in its till, and if in the other months there is an excess over that amount, it might very well be given back to the public through the agency of the banks, so that it should not be kept locked up in the Government Treasury.

6036. Whenever it exceeded that sum?—Yes, it might at once, because, I argue, from the existence of these sums, that it would be possible for Government to go on at other months in the year with the same amount in their Treasury.

The witness withdrew.

सत्यमेव जयते

At the India Office, Whitehall, S.W.

FOURTEENTH DAY.

Thursday, July 17, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEEBIE.

Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

The Hon. MONTAGU DE P. WEBB recalled and further examined.

6037. (*Chairman.*) We took you through a good deal of your memorandum last week. I want now to turn in the first place to the question of the Gold Standard Reserve. May I take it that you approve of the establishment of a gold reserve?—Yes.

6038. I think you say you would prefer to call it a gold reserve rather than a Gold Standard Reserve?—Yes.

6039. What is your idea of the total which should be reached by that reserve? If you have not fixed any figure in your mind, say so?—Yes, I have fixed a

figure. In past conditions I have regarded 20 to 25 millions as being adequate, but with the establishment of a gold currency I do not think any gold reserve is necessary at all. As we approximate to the condition where gold is in circulation and in common use as currency, so do we come to a stage when no gold reserve or Gold Standard Reserve will be necessary at all, but until that stage is reached I think it ought, to be in the neighbourhood of 20 to 25 millions. That is quite sufficient, I think; in fact, I think it is more than sufficient as things are at present.

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[Continued.]

6040. You gave your opinion of the establishment of a gold currency, and the effect of it, last week, and I do not propose to raise that again to-day. I am now dealing with the condition of things which prevails as long as there is no such gold currency as you desire to see established?—Then about 25 millions would be my answer.

6041. Of that amount how much do you desire to see kept in actual gold?—I should like to see the whole of it kept in gold.

6042. I think you speak in your memorandum of keeping a portion of the securities in London?—That is as a concession to the situation in London.

6043. But you would prefer that the whole should be in gold?—Yes.

6044. Whether in London or in India?—Preferably in India.

6045. Do you not think that there would be some excess of caution in locking up so large an amount of money as 25 millions without attempting to earn interest on any portion of it?—I do not think so. I regard it as essential.

6046. Now I come to the question of where the gold should be kept. You desire to have the whole of it kept in India, or as much of it as you can persuade the authorities to keep there?—Yes.

6047. You say in paragraph 5 of Part IV. of your memorandum (page 560) that the object of the reserve "is to provide gold in India for export if required"?—I think so, yes.

6048. Why do you so limit it—that the object of the reserve is to provide gold in India for export?—Because that appears to me to be the only and complete object of the reserve.

6049. To where would it be exported?—Probably to London.

6050. Under what circumstances?—In the event of a reversal of the balance of trade or in the event of a crisis in London. That would involve, of course, a reversal of the balance of trade.

6051. Then you do contemplate that when you have to draw upon this gold reserve the place where you would want it ultimately, if not immediately, is London?—Probably, yes.

6052. I understand that you do not think that that is a reason for keeping it in London?—I think it is altogether outside the duty of Government to go so far.

6053. A great number of witnesses have put to us that, as London will be the place where the gold will be required in the circumstances which you have foreshadowed, London is the best place to keep it. That is not your view?—That is not my view, no. My chief reason being that for many years past it has been recognised that the reserves of gold in London are slender in the extreme, if not dangerously slender, and in those circumstances I do not deem it wise to risk the currency situation in India by putting 25 millions of India's reserve in that same centre.

6054. Your real objection, as I understand, to keeping it in London is a fear that if it were in London it would be used for the convenience of London, and not for the security of the Indian exchange?—That is my main objection, yes.

6055. You hold that view even though the gold here be earmarked, as it is called, at the Bank of England?—Yes.

6056. You are of course aware—at least, I presume you would be aware—that that is not the view held by London bankers?—Yes.

6057. They consider that earmarked gold at the Bank of England is wholly outside the reserves on which they work and count for the purposes of London?—That is the ordinary practice in ordinary conditions, but in a state of crisis or panic I could not imagine for one moment that that earmarked gold would not be appropriated for urgent needs of State.

6058. In fact, you are afraid that, under the stress of such a temptation, the Chancellor of the Exchequer would raid the Secretary of State?—I think he would be sure to.

6059. And in order to guard against that, you would keep the gold in India?—I think it would be an additional source of strength to both sides.

6060. That would mean that while you were building up the reserve you would have to be remitting the gold to India, would it not?—Yes.

6061. And when you were using the reserve you would have to be remitting the gold home from India?—Yes.

6062. Paying something for passing it first in the one direction and then in the other?—Yes.

6063. But in spite of that—as some people would say—wasteful expenditure, you desire it for the reason which you have given me?—Yes.

6064. As a security that it shall be available for India?—Yes. May I add that in my belief the gold which has been earmarked in the past has, on more than one occasion, been unearmarked, if I may so use the expression, at the discretion of the Secretary of State. I believe that on more than one occasion gold has been earmarked by the Secretary of State, and then on another occasion the Secretary of State has removed that restriction and used the gold in other ways.

6065. Can you give me any instance which you have in mind which would bring before us more exactly the circumstances in which it was done?

(*Sir Robert Chalmers.*) With specific reference to metallic gold?—I cannot give the dates without making reference, but I remember distinctly that gold has been earmarked for the Gold Standard Reserve, and I think for the Paper Currency Reserve as well, and it has been released from that restriction at the discretion and request of the Secretary of State, but without any reference, that I am aware of, to India.

6066. (*Mr. Keynes.*) Are you referring to the case of 1907–8, when, to meet his own needs, the Secretary of State unearmarked a certain amount of gold?—That is one of the occasions.

6067. (*Chairman.*) Was not that a way of making the gold reserve available for the very purpose for which it exists?—In 1907–8, yes.

6068. There was no objection to doing that?—There was no objection, no. I am only drawing attention to the facility with which this gold is earmarked and the restriction taken away again as required by the Secretary of State. It is my belief that in a grave national emergency the Secretary of State would be persuaded to take similar action again. That is what I meant by the Secretary of State being raided.

6069. (*Sir Robert Chalmers.*) By the Secretary of State and for India's needs?—In the judgment of the Secretary of State.

6070. (*Chairman.*) I think you do not criticise his judgment in the past?—I think the judgment used has been very defective in recent years, and unreliable.

6071. But do you criticise the exercise of his judgment in this particular respect?—No.

6072. You have alluded to those occasions where he unearmarked gold to show the facility with which it could be done?—Yes.

6073. But I do not understand you to say that it was improperly done or done with an improper reason?—No.

6074. Now we pass to the Paper Currency Reserve. From the opening words of Part V. of your memorandum (page 561), I gather that you approve of the existing system of paper currency managed by the State?—Yes.

6075. And that you would not advocate its transfer to a central bank?—No.

6076. You object to the holding in London of gold belonging to the Paper Currency Reserve?—Yes.

6077. On what ground—on the ground that the Paper Currency Reserve is for the encashment of notes?—Yes.

6078. And that the notes will be presented in India?—Yes; and that, therefore, the metallic reserve cannot be required under any conceivable circumstances in London.

6079. The reserve held in London, I think, is held in gold?—I believe so, yes.

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[Continued.]

6080. We have had it in evidence that the great advantage of holding that gold in London is that it provides a means of making the paper currency elastic?—Some of the Paper Currency Reserve, if I may be permitted to correct myself, is held in London in securities, or has been held in London in securities.

6081. I was talking of the bullion portion. We have had it in evidence that the great advantage of holding gold in London is that it provides a means of making the paper currency elastic. Do you follow that?—No, not at all. I am familiar with the official argument, but I cannot accept it.

6082. The argument being that that is because the circulating medium can be expanded quickly against that deposit of gold in London?—Yes.

6083. You do not accept that argument?—No.

6084. Do you think it untrue in fact, or is your criticism that it does not support the structure which is raised upon it?—I think that the manipulation of the paper currency has been effective in the respects to which you refer, but I regard it as a very undesirable manipulation.

6085. Apart from that, the paper currency system at present is very inelastic, is it not?—I am not quite sure that I understand the question.

6086. There is little power of expansion to meet a great demand in trade pressure; I mean a temporary demand. I will put it in another way—the fiduciary portion of the issue is a fixed sum?—Yes.

6087. Beyond that notes can only be issued against the deposit of coin or bullion?—Yes; in that sense it is inelastic.

6088. Do you think that advantage would be derived by India if more elasticity could be introduced into that system?—Yes.

6089. It has been suggested to us by some witnesses that the fiduciary portion of the issue, instead of being a fixed amount, might be some proportion of the whole?—Yes.

6090. What do you say to that?—I think that would be a wise principle to adopt.

6091. Have you any figure in your mind as to the proportion to which you think it would be safe to go?—I think that a step further forward may be made than is at present being taken. I do not know exactly what proportion, but I think that we might go further forward than we have done in the past.

6092. It has been also suggested to us that for the sake of meeting the trade needs in the busy times the whole of the fiduciary portion should not be permanently invested, but that a part of it, probably a small part of it, should be left to be lent out on the market in busy times. Would that commend itself to you?—Yes, I think so.

6093. If that were done would you still want the Treasury balances lent out in the manner which you explained to us last week?—Yes, I think so; I think if Treasury balances are accumulated in excess of the requirements of the State the right course for the State to take is to make that money which has been collected in excess of requirements available to the public through the banks.

6094. In the course of your criticisms of the present management of the Paper Currency Reserve you quote the reply of the Under Secretary in the House of Commons to Mr. Gwynne; it is subsection (c) of section 3 of Part V. (page 562): "Investments in sterling securities in London are better for India than investment in Government of India rupee paper, because such securities are not necessarily influenced by the causes which might shake public confidence in the Indian paper currency." I think you quote that observation for the purpose of condemning it; but is it not true?—It is true in a sense, but if there were no portion of the paper currency lying in London at all it could not be invested in English securities, and there, in my opinion, the argument is unsound.

6095. Because there ought to be none here?—Because there ought not to be any there. My other reason for quoting that is merely to show that it is in conflict with other explanations and arguments which have been used.

6096. In paragraph 7 of the same part of your memorandum (page 563), at the end, you say: "Indeed, did the crisis happen to be a western crisis rather than an Indian crisis, the gold"—you are speaking of the Paper Currency Reserve gold—"would be far more valuable to India (and possibly to Great Britain) were it held in India rather than in the United Kingdom." Will you explain that to me? I do not follow your reasoning?—If the crisis happened to be a western crisis there would probably be a shortage of gold in London, and in such circumstances the shipments of gold from India to London would tend to relieve that crisis, but if India's gold was held in London the demands of India for that gold would tend to accentuate the crisis.

6097. Why would India demand the gold? If the ultimate need of the gold was in India, then if it were issued in India it would not come to London?—No, if the ultimate end was India, but in a case of crisis in London there would be a demand for money in London, and that demand would show itself in a request to the public of India to remit their money to London to assist in overcoming the crisis; but if the money were in London, then the recovery would be through the agency of the Secretary of State; that is to say, the public would go to the Government of India and take over the drafts from the Secretary of State which in a crisis he might not be able to cash; but if the reserve were held in India in gold there would be no difficulty in anybody taking their metal from the treasuries and shipping it to London.

6098. But is not there exactly the same amount of gold *ex hypothesi* in either case?—Yes.

6099. In one case it is in the control of the Government of India?—Yes.

6100. And in the other case it is in the control of the Secretary of State in London?—Yes.

6101. In either case it is wanted by India to settle an adverse balance of trade with London?—Yes.

6102. Except in point of time, what difference is there between issuing from the treasuries in India and issuing the gold from the Bank of England in London?—The difference is this, that if the paper currency reserve is held in London, probably the whole of it would not be in gold, but largely in securities. The portion that was in gold would be liable to be appropriated for other purposes in a severe crisis, whereas if the gold were held in India the gold would be obtainable for the public and would not be affected by the crisis taking place in London, so that the public could ship their gold home, and thereby re-establish confidence in London.

6103. I think it really comes to this, that you have confidence in the management of the Government of India if the gold is under their control, but you have not the same confidence in the management of the Secretary of State and the Council in London?—That is what it comes to.

6104. Generally speaking, as regards these two reserves I think a considerable part of your criticism is directed to the interchange which has been made between them. You object, for instance, to holding any silver in the gold reserve?—Yes.

6105. You object to holding any gold in the silver reserve?—I do not object to that, no.

6106. I beg your pardon: I misunderstood you, then?—I object to holding silver in the gold reserve, but I do not object to sovereigns being held in the Paper Currency Reserve. I merely drew attention to the fact that a reserve which is accumulated for the purpose of paying out rupees is held in gold, and a reserve which is accumulated with the special object of paying out gold is held in silver, and I reflect on this management and I call it bad management.

6107. If the two reserves were amalgamated, and one reserve made to serve both purposes, would that meet your criticism on that point?—I do not know how the two reserves could be amalgamated without an entire abandonment of the present machinery. I have already pointed out that if there is plenty of gold in circulation, and plenty of gold in the Paper Currency Reserve, there would be no necessity for a second reserve (*i.e.*, Gold Standard Reserve) at all.

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[Continued.]

6108. I turn now to Part VI. (page 563). I propose to deal very briefly with the remaining portion of your memorandum, which is in fact largely a summary of the preceding parts, and we have therefore dealt with it already?—Yes.

6109. In Part VI. you quote the opinion of the Indian Currency Committee, in recommending open gold mints and a gold currency and standard for India, that "with the growth of confidence in a stable exchange, capital will be encouraged to flow freely into India for the further development of her great natural resources."* Do I understand you to imply that that hope has not been realised?—It has not been fully realised. I can certainly say from my own personal knowledge that many people at present are afraid to invest in India because they think there is some uncertainty about the stability of the rupee.

6110. That is what I was going to put to you, that it was in fact upon the growth of confidence in a stable exchange that the Currency Committee relied to produce that result?—Yes.

6111. Only in so far as the stable exchange is obtained or supported by the opening of mints to gold and by a gold currency would they affect the proposition at all?—Yes.

6112. As regards the financial organisation of the India Office, am I right in understanding that you suggest a committee of three in place of the present committee?—Yes.

6113. Your principal objection, I understand, to the present committee is, perhaps I may say, the results which have followed from its management?—That is certainly very largely my objection; the results show that the committee is not wisely constituted, I think.

6114. You dislike the fruit, and you judge the tree by the fruit?—Yes.

6115. Your main objection, as I understand, to its composition is that London is too much represented, and India too little represented?—Yes.

6116. Your proposition is that there should be one London banker, one Indian banker, and one Anglo-Indian administrator?—Yes.

6117. You speak of an Anglo-Indian banker. It must be somebody who has retired, I suppose, from Anglo-Indian banking?—I presume so.

6118. He must be somebody, at any rate, who is resident in London?—Yes.

6119. He might be a London representative of one of the Indian banks?—Yes.

6120. You have not, I suppose, and you could not have, any detailed knowledge of the working of the present organisation; you can only judge it, and do only judge it, by its results?—That is all.

6121. There is only one further question I want to ask you. I do not think that we have had your opinion as to whether it is desirable that some State or Central bank should be established in India?—So far as the suggestions which have appeared in the Press may convey a correct idea of the proposed State bank, I do not see that the advantages outweigh the disadvantages.

6122. (Sir Robert Chalmers.) As regards the Gold Standard Reserve, do I gather aright that you take some exception to it because it is entirely at the discretion of the Government, without any statutory sanction? Would you like to see a statutory sanction for the utilisation and management and control of the Gold Standard Reserve?—Yes.

6123. You would be guided in that to some extent by the fact that in the case of the Paper Currency Reserve there is always, of course, statutory sanction?—Yes.

6124. And statutory determination of the methods by which it should be conducted?—Yes.

6125. I do not know whether you would be in a position to express any opinion on a proposition which I have heard discussed, that it might be possible to blend those two reserves?—Yes, it might be possible.

6126. You are not in a position to express any thought-out view on that matter?—I have never before heard it suggested that they should be blended.

6127. Coming to the gold reserve in itself, suppose there were no metallic gold in the reserve in your millennial scheme, but a gold currency ample enough to meet your requirements, what do you think would happen if the balance of trade became adverse?—It would be necessary to ship gold from India to Europe.

6128. The gold would be, in the main, in the hands of private individuals?—Yes.

6129. You have great experience of human nature, particularly native human nature, in India. Do you think you would get gold to come out? Do you not think the tendency might be to hoard it instead of helping bullion export?—I do not think there would be the slightest difficulty if gold were circulating freely.

6130. Is that your deliberate opinion?—Yes.

6131. Have you anything to support that in history, so far as there exists history on these matters in India?—There is no history in India that will help us in the matter, because we have not had a gold currency of large magnitude before.

6132. Would it be a fair statement of history, in your opinion, to say that metal or coin has come out from hoards only under stress of famine in past times?—That has happened in the past, certainly. I understand the question to be whether that is the only occasion upon which metal has come out from hoards.

6133. So far as there is any history, is that your opinion?—Yes, that is approximately correct, I should say.

6134. Do you feel really sufficiently safe, in your opinion, to trust to any currency distributed amongst the population as your ultimate reserve to support exchange? Do you feel safe enough to take this gigantic step of having no metallic gold in the reserve, and trust exclusively to a diffused currency of gold coins? Do you feel certain enough in that to take so big a step?—No, I am trusting to the gold in the Paper Currency Reserve largely. There will be 30 millions or 40 millions in the Paper Currency Reserve, and it is from that reserve that the banks would draw the gold for export.

6135. I am relieved to find that I had not gathered your opinion rightly. How has the gold in question got into the Paper Currency Reserve under the circumstances you have in mind?—It usually finds its way by direct importation of gold by the public.

6136. In the crisis that we are contemplating would not there be a tendency to present notes and to require encashment in gold?—Yes.

6137. And that gold so drawn by encashment of notes in your judgment would be used for export?—That is the only purpose for which I can conceive it would be withdrawn from the Paper Currency Reserve.

6138. That is not quite so much in my mind. The point is whether the person who has drawn the gold would, as a matter of fact, export it. Do you feel happy on that?—I feel perfectly happy.

6139. In spite of the fact that one knows that of the previous 4½ millions withdrawn only about a quarter of a million came to England to support exchange?—That was because Government themselves by their own actions made it more economical for the public to hoard the gold than to give it to the banks to export.

6140. That is your view?—Yes.

6141. Coming to the Paper Currency Reserve, you are prepared to see that utilised for trade advances on gilt-edged securities to Presidency banks?—A small proportion of it, yes.

6142. Part of the fiduciary portion of that Paper Currency Reserve you would see utilised in that form?—Yes.

6143. And you would regard that as adding elasticity to the issue and making it, perhaps you would feel, rather more scientific?—My object would be to make it a little more elastic for meeting seasonal requirements for currency.

6144. As to the amount of that, would you give as much as would be required for trade at the time of seasonal pressure?—I think the first consideration would have to be the security of the paper currency.

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[Continued.]

6145. But assuming security, assuming that you have got the best floaters, if I may use the term, as the basis of the advance—assuming that you have got all the security needed—you would be prepared within the fiduciary portion of the Paper Currency Reserve to lend out what is required for seasonal pressure to the market? I am only asking your opinion?—I am not prepared to say “as much as is required,” but I should lend out substantial sums with the object of aiding the market.

6146. Do you think much would be required?—Yes.

6147. Are you in a position to suggest from your experience what might be taken as the amount which in a fairly busy year might be required by trade to supplement the existing resources available?—I am not prepared to say off-hand without going into the matter more carefully.

6148. Still, India is not a very big market, and a little shortage makes a very great difference, of course?—Yes.

6149. Would you be disposed to imagine that it would be a large sum which would be necessary to make the difference between stringency and relative ease?—No, I should think comparatively a small sum, possibly a crore or two crores of rupees.

6150. You would be prepared to advance that sort of sum from the Paper Currency Reserve?—Yes, if it could be done without jeopardising the currency.

6151. On perfectly adequate security?—Yes.

6152. And to the extent to which you would do it from the Paper Currency Reserve you would not need to do it from Treasury balances?—Presumably not. It is immaterial, from the point of view of trade, where the money comes from. It is a matter of Government convenience.

6153. There would be at any rate that element of *prima facie* propriety, that the Paper Currency Reserve would not want its fiduciary portion back at a given moment in the same way that the Government, which, after all, is a trader, requires its cash brought in for the purpose of making its payments?—Yes, quite so.

6154. To that extent there would be an advantage, in your judgment, in the utilisation of the Paper Currency Reserve rather than the Treasury balances?—Yes.

6155. (Sir Ernest Cable.) I think you said that when the Gold Standard Reserve had reached a sum of 25 millions you would regard that as a safe figure?—Yes, in the present circumstances.

6156. Then, when that sum had been reached, I presume you would agree that the profits on the silver coinage might then safely be utilized in the general expenditure of the country on productive public works?—Yes.

6157. The whole tendency of your evidence, of course, is in favour of a gold currency?—Yes.

6158. And so far as that would be successful, those profits would be diminished?—Yes.

6159. You would regard that loss of profits with equanimity?—Yes, I think that Government should not look at the profits on the token currency in the light of revenue.

6160. But still, there would be a profit after your 25 millions had been reached?—Yes. I think it would be necessary, though, to regard that profit with very great caution, so as to avoid any temptation on the part of Government to issue excessive token currency merely with the object of making a profit on it. I think that would have to be guarded against very carefully.

6161. Then, that profit being lost, you would suggest, I suppose, that the requirements of the country should be met by raising more loans?—The Government requirements, yes.

6162. I think you said the other day that a very large amount could be raised by 3½ per cent. loans on the present terms?—I think some more could be raised. I do not know that I said “very large,” but I think more money could be raised.

6163. I think you will admit that India is paying rather less than the rest of the world for its money, is it not?—Yes, that is the source of the difficulty. I

think if Government were to pay a trifle more for their loans, just as other Governments have been forced to do, there would be plenty of capital forthcoming.

6164. If they revised the terms of the loans and brought them up to date, so to speak, in the matter of terms and conditions, we should not be in constant need of money for developing the country?—No, I think there would be practically unlimited money forthcoming.

6165. (Sir Robert Chalmers.) But, of course, everything turns on price?—Yes.

6166. If you offered 8 per cent. you could get any amount of money?—Yes. I think a great deal of the difficulty which the Government of India at present have in raising their funds arises from the fact that they are not paying perhaps quite enough in comparison with what other countries have been forced to pay for new capital issues.

6167. Do you make that remark as a stricture on the Government of India?—No.

6168. On the contrary, they have been husbanding their credit as much as they can?—Yes.

6169. (Sir Ernest Cable.) Do you not think they have done the country harm by delaying development owing to the too conservative terms upon which they are trying to raise money?—I do not think I would be prepared to go as far as to say that harm had been done.

6170. (Mr. Keynes.) In paragraph 6 of Part IV. of your memorandum (page 560) you say: “No other nation in the world, that I am aware of, holds its gold reserves in securities, silver, and short loans to private borrowers outside its own country.” When you say “gold reserves” you do not mean reserves of gold coin; you mean sterling reserves?—No, I mean reserves of gold coin.

6171. Would you maintain that India holds her reserve of gold coin in silver?—She holds a substantial proportion of the Gold Standard Reserve, which was created with the special object of redeeming the gold currency, in silver.

6172. I am putting it to you, that if by “gold” you mean gold coin, then, of course, no nation can possibly hold its gold coin in silver?—No.

6173. If you mean by “gold” sterling resources?—No, I do not mean sterling resources.

6174. Then are not there other countries which follow the same practice as India?—No, I mean gold reserve. I think I stated “gold reserve,” by which I mean a reserve of gold, and I argue that the Gold Standard Reserve was intended, and was originally meant, to be a reserve of gold. That is what it was intended to be—a reserve of gold—and, in so far as Government have departed from the recommendations of the Fowler Committee they are not holding reserves of gold, but they are holding silver, securities and loans, which I think is very bad.

6175. You are aware that there are other nations which hold their sterling reserves in the forms you describe?—Yes.

6176. So that the reference to other nations in this connection is epigrammatic rather than argumentative?—I think the statement of fact as I have made it is quite accurate; I believe so.

6177. I do not think anyone could deny it as a statement of fact if by “gold reserve” you mean gold coin reserve; and I will leave it at that. Would you maintain that the purposes for which India holds sterling reserves abroad is materially different from the purposes for which other countries hold sterling reserves abroad?—I believe it is materially the same; the reason is materially the same.

6178. So that you will agree with me that the practice of India in this matter is the same, whether right or wrong, as certain other important countries?—Yes, it is the same in some respects.

6179. I should like to ask you one or two questions on this matter of holding gold in India or London. In reply to the Chairman this morning you gave it as your main reason for wishing the gold to be held in India, as I understood, that if the gold was held in

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London it probably would not be gold?—That is part of the reason.

6180. If it were gold you would not have so much objection?—Not so much, but I should still feel nervous lest the gold were appropriated in a crisis for London's needs rather than India's needs.

6181. There are two points: There is the form in which your sterling resources are to be held, whether securities or gold; and there is the second question: When it has been determined how much gold is to be held, where that gold is to be kept?—Yes.

6182. Putting aside the first point, after it has been settled how much gold is to be held, do you think there is then much advantage in holding the gold in India rather than in London?—Yes; so long as the gold reserves in London stand at their present figure, as a matter of caution I should certainly hold India's gold reserves in India.

6183. And your only reason for that is that you think the Secretary of State might un earmark gold when strictly from India's point of view it was not necessary?—Yes.

6184. I want to put to you in regard to that this question: In difficult times in London is not India quite exceptionally at the mercy of a high London bank rate? Supposing that the London money market was *in extremis*, and wanting gold from all possible sources, and putting up its bank rate, and taking other measures with that same end, could not India be forced to repay sums which she had borrowed at short notice, and so make her gold available to the London money market?—The sums which India borrows repayable at short notice are very small relatively. It is generally the other way about; recently, it has certainly been London that owes India money borrowed and repayable at short notice.

6185. You are aware, for example, that the banks raise very large sums in London at short notice?—Yes.

6186. And operate in India?—Yes.

6187. There are a great number of business houses with connections both in this country and in India; and with the London bank rate up to 7 or 8 per cent. they would all wish to get as much money home as they could?—It depends on what the house was, and the nature of the business. It is not because there is such a high bank rate in London that therefore people necessarily remit money from India to London.

6188. But there would be the general tendency for at any rate some persons to wish to hold a larger proportion of their funds in London than usual, and a less proportion in India?—Yes, there would be a tendency.

6189. And, owing to the close relations between India and London, that would be so to a greater extent, perhaps, in the case of India than in the case of any other country?—Possibly.

6190. I suggest, therefore, that in a case of extreme stringency, such as you are considering, it is quite conceivable that it would be necessary for the Secretary of State to un earmark gold in the interests of India. If London really wants India's gold she can get it by perfectly legitimate means?—I think she can get some of the gold, yes.

6191. I will even go so far as to say this, that the very reason why India has to keep a gold reserve is because she is at the mercy of London when London is in difficulties of this kind; or that is one of the reasons?—I could not acquiesce in that view. I think that India is in a very powerful position indeed.

6192. I mean that a country which is a borrower rather than a lender, and can be compelled to pay money, has to keep larger reserves than a country which is a lender rather than a borrower?—Yes, but I do not think India borrows short period loans so largely as to make that a danger to India.

6193. The point I am trying to bring forward is, of course, independent of the balance of trade in commodities?—Yes.

6194. I am thinking not so much of the case where India is in difficulties because of the falling off of her exports, as of the case in which it is to the advantage of most private persons to remit funds back from India to London so far as they possibly can; and I am argu-

ing that the funds which are available to private persons in such circumstances are at any rate as large or larger, as between India and London than as between almost any other pair of countries?—I do not know.

6195. We know that even in the case of South American countries the power of a high bank rate in making people remit back is very strong, and I suggest to you that in the case of India it would really be stronger?—I should not like to say. I can quite conceive that, in such an emergency, it might be necessary to raise the bank rate in India to prevent money going back, and I can quite conceive that India would most successfully carry out that operation.

6196. But why should India want to?—Because India has a large trade of her own to carry on which needs financing.

6197. (*Sir Robert Chalmers.*) Where is the ultimate settlement of the financing of India's trade?—Probably in London.

6198. (*Mr. Keynes.*) I do not want to press this point any further because I think I have really got your opinion, but I should like your answer to this final question: You do not agree with me, I think, in holding that one of the reasons why India has to keep a large reserve is because of her close connection with London and because of her being borrower rather than lender in the international short loan market?—I do not think that is the principal reason.

6199. And it is a difference of opinion on that point which leads up to the other difference of opinion as to the likelihood of the Secretary of State being even tempted to un earmark gold in a crisis contrary to India's interest?—I have never heard it suggested or put forward as an argument that the Gold Standard Reserve has been created for the particular purposes which you suggest. The only object for which I know that the Gold Standard Reserve was created was to provide for a reversal in the balance of the trade necessitating gold exports from India—monetary exports from India.

6200. But there is not the slightest difference between the need for remittance caused by having to repay loans which are due and that caused by having to pay for new purchases, is there?—No.

6201. Your last point is not in the least relevant to the argument, is it?—It is relevant in this sense, that I have never heard it suggested that it was necessary to create a Gold Standard Reserve for other purposes than the reversal in the balance of trade in commodities; I have never heard it so argued. The ultimate effect, of course, is the same, however the reversal of trade comes about, but the Gold Standard Reserve has been created, so far as my knowledge goes, with the special object of providing gold for meeting a reversal in the trade balance and for no other reason.

6202. You mean simply that this point which I am suggesting, namely, that the Gold Standard Reserve also be used in cases where India is called on to repay, is a new one to you?—It may be so, but I do not regard it as an important point, because I do not think the amount which would have to be repaid in such circumstances as you suggest would be very large.

6203. Your previous answer merely meant that you had not heard people argue on the same lines as I was arguing now. You did not mean anything else?—Yes.

6204. In answer to the Chairman, you agreed with him, I think, that it would be a little unsafe at a crisis to rely wholly on gold in circulation, even if it was in circulation to a large extent?—Yes.

6205. And that you were relying on the gold in the Paper Currency Reserve?—Yes; that was in reply to a question by Sir Robert Chalmers.

6206. The amount of gold in the Paper Currency Reserve depends upon the circulation of notes being increased?—Yes, increased gold depends largely on an increased use of the paper currency.

6207. And upon the circulation of rupees not being diminished?—Yes, and upon the note circulation not being diminished.

6208. So that any measure which sets up a rival to the paper currency and to rupees is likely to have some tendency to diminish the amount of gold held in the Paper Currency Reserve?—Yes, some tendency.

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6209. If, therefore, you are relying mainly on gold in the Paper Currency Reserve, you would wish rather for a continuance and extension of the present arrangements rather than for some new one?—Not necessarily.

6210. In so far as you are depending on gold in the Paper Currency Reserve, you would wish for what I have suggested?—No, I do not follow that.

6211. You agree with me that if notes are being used more, and if rupees are not being used less, then there is the more gold in the Paper Currency Reserve than would otherwise be the case?—Yes.

6212. Therefore, if you are relying mainly on gold in the Paper Currency Reserve, you must wish for an increase of notes which is accompanied by no great diminution in the use of rupees?—Yes.

6213. And the contrary policy would lead to there being less gold in the Paper Currency Reserve?—Yes.

6214. And therefore, in so far as you are relying upon gold in the Paper Currency Reserve, to more weakness rather than to more strength in a crisis?—I do not follow that last question.

6215. In so far as you are relying on gold in the Paper Currency Reserve, an alteration of policy would lead to more weakness rather than to more strength in a crisis?—I am afraid I do not follow.

6216. (*Chairman.*) Would it help if it were put to the witness the other way? He would see better what you are meaning. (*To the witness.*) Suppose you diminished the number of notes in circulation and the number of rupees in circulation by increasing the amount of gold in circulation, you have *pro tanto* diminished the amount of gold in the Paper Currency Reserve; is not that so?—In the reserve, yes, that is right.

6217. But the presence of gold in the Paper Currency Reserve in large quantities is essential to the success of your policy, is it not?—Yes.

6218. Therefore anything which diminishes the amount of notes and rupees in circulation jeopardises the success of your policy?—Yes, I follow that line of argument.

6219. That is only beginning at the other end?—I understand this line of questioning now is: If you had no Paper Currency Reserve your scheme would be perhaps considerably jeopardised. That is the direction in which the examination leads. Do I follow that correctly? I understand it to be that if you did away with the Paper Currency Reserve you would have no gold in the Paper Currency Reserve, and therefore what would you depend upon for export.

6220. That is the extreme case?—That is the extreme, yes.

6221. And that in proportion as you diminish the note and rupee circulation you diminish gold in the Paper Currency Reserve?—Yes, I have followed that correctly, I think.

6222. (*Mr. Keynes.*) There is also the further point which I want to imply, namely, that if rupees are driven out of circulation the only home they would have would be in the Paper Currency Reserve, and that they must displace gold there; there is that point also?—It is so. It is a theoretical possibility. It has no practical probability about it, I think.

6223. In paragraph 1 of Part VI. (pp. 563-4) you say that there has been delay in the growth of confidence resulting in cheap capital being withheld from India which would otherwise have flowed there?—Yes.

6224. What evidence have you of that?—Evidence of my own practical experience as a financier and banker.

6225. You could not make it in the least specific?—I could not write down for you individual instances of people whose nervousness had prevented their sending their money out to India, and I should not care to do so if I could.

6226. But you have in your own experience met persons who were prevented from investing in India because of their lack of confidence in the stability of the rupee?—Yes.

6227. There is no instance that you care to specify about that?—No, I can give no names.

6228. I have only one final question to ask. We are aware, of course, that you have written a great

deal in the press and elsewhere in regard to the questions which we are investigating?—Yes.

6229. May we understand that in the memorandum which you have submitted (*see Appendix XXI., page 550*), and in your evidence of last week and this morning, you have brought to our notice all those criticisms and considerations which you think important and deserving our attention?—Yes, I think so in relation to the matters referred to this Commission for consideration, but not in connection with any other matters.

6230. (*Sir Shapurji Broacha.*) Your great objection to keeping gold here is that the temptation is too great in time of crisis?—Yes.

6231. If the Secretary of State at a certain juncture wishes gold to come out from India to here, can the Government of India refuse the order?—I should think not.

6232. Then where is the great safety of keeping it in India? If England requires it she will order it?—My line of argument was this, that it is recognised on all hands that there is not sufficient gold in London at the present moment proportionate with the banking liabilities of the London banks, and consequently it is common knowledge that the London banks are at the present moment putting their heads together to devise means by which they can persuade each other to hold larger gold reserves. In those circumstances I think it would be safe for India in the meantime to hold its own gold reserves in India. That is my line of argument.

6233. Suppose it is called up?—If it is called up by the public it can be remitted.

6234. Then there is not such great safety as you think by keeping it in India; it is safer here. Do you not think so?—No, I do not think so. At the present moment there are over 16 millions invested in London on behalf of India in the securities in the Gold Standard Reserve, and I do not think that six millions of those 16 millions could be realised to-morrow if the cash were urgently wanted in London.

6235. You say all fiduciary securities should be invested in rupee securities and not in sterling?—As far as possible.

6236. There is a danger of not being able to sell sterling securities; is not that so?—Except at a very heavy loss.

6237. Would not that happen in India supposing there were a rebellion? You would have to sell at half the price where you could sell at all. Is it not better to put your eggs into two baskets instead of one?—I regard the policy which I am advocating as precisely what you are suggesting, namely, putting my eggs into two baskets instead of one. That is my policy. If the money is in London, I regard the eggs as being in one basket; but if the money is half in London and half in India, I regard the eggs as being in two baskets.

6238. I am talking of fiduciary securities. You do not want two millions to be invested in London securities, but you would have 12 crores in Indian securities?—Yes.

6239. In talking of the two baskets, I am speaking of those two securities?—No, I do not think it is desirable to invest a reserve against the Indian paper currency outside India; I do not think it necessary.

6240. Would it not be safer to have half in English securities and half in Indian securities?—I do not think so; I do not think that that is necessary as a matter of practical business in connection with the Paper Currency Reserve.

6241. When there is a raid in time of crisis in India, would it not be better that some surplus should be here which you could sell?—I do not know what the use of a surplus in London would be in such an emergency. I do not know how it could be brought immediately to the assistance of the Government of India.

6242. You say, of course, that you approve of the present currency arrangement—the notes; you think that it is well managed by the Government?—The paper currency, yes.

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6243. And people think paper issued by Government safer than paper issued by a bank?—I think they do, undoubtedly.

6244. It will take a long time to accustom them to bank paper?—Yes.

6245. The fiduciary surplus in the paper currency is about 20 per cent. at present; it is 14 crores against 70 crores, which is 20 per cent.?—Yes, roughly.

6246. In England it is about 33 per cent.?—Yes.

6247. When the Government are not able to afford any assistance to the trade, would you allow the Currency Department to lend between 20 and 33 per cent. of the currency balances; would it be unsafe?—No, I do not think it would be unsafe.

6248. (*Sir Robert Chalmers*.) Your opinion would turn to some extent on the amount?—Yes, the amount and the conditions of the moment. It would be very difficult to lay down any hard and fast rule which would be applicable in any month and in any year, no matter what the political or other conditions might be.

6249. (*Sir Shapurji Broacha*.) You fix the liquid gold reserve at 25 millions?—In the Gold Standard Reserve, and under present conditions, yes.

6250. Would it not be better if it were all put into gold?—If there is a large quantity of gold in the Paper Currency Reserve, and if there is gold freely in circulation, I do not think it would be ever necessary to hold more than 25 millions in the Gold Standard Reserve.

6251. Do you know other countries are scrambling for gold and losing interest?—They always hold very large gold reserves. Every other country holds larger gold reserves than we do, in spite of the loss of interest.

6252. Why should not India do that?—I think India should hold a larger reserve of gold. That is entirely my line of argument.

6253. You said something about the organisation of the India Office. Would you prefer that every Finance Minister retiring should be on the Finance Committee until another Finance Minister retired, because then, of course, they will be fresh anyhow every five years?—There is much to be said for that.

6254. For instance, a Finance Minister is retiring now. If he serves for five years or four years until the other retires, we should always get sufficient knowledge from India?—There is something to be said for that.

6255. An Anglo-Indian retired bank manager would not be of much use unless he had only retired for two or three years, would he?—Possibly not.

6256. Because the man who knows and is in intimate touch with India is a working manager?—Yes. It is possible that an appointment to the Secretary of State's Council might expedite his retirement.

6257. Who ships gold in a crisis for the maintenance of exchange? Is it the people?—The banks, probably, and large mercantile firms.

6258. According to you, they will have to go to the Currency Department?—Probably.

6259. They will not get it from the people?—Partly from the people.

6260. Do you think as long as they have rupees and notes enough for exchange they will ever part with their gold?—I think so.

6261. Have you any reason to think so?—If gold is circulating freely, I have no reason to suppose that there will be any reluctance on the part of the people to pay gold.

6262. You think so?—I think so, if gold is circulating freely.

6263. Do you think I would give my gold in a time of crisis?—I do not know.

6264. I can tell you one instance: In the acute crisis of the Balkans I am given to understand that a man just wrote a cheque for 100,000*l.* on the Bank of England and took it out in actual gold?—Yes.

6265. Do you think that is less likely in India, where they know nothing but metal?—I do not think myself it would be so. If gold is circulating freely, in the event of a reversal of the balance of trade, I do not think that the great mass of the people, who know nothing about the balance of trade, would create any

difficulty in the way of passing gold from hand to hand any more than silver.

6266. Again, if you are able to borrow largely in India for public works, part of that will be sent here again and more gold will be required, even in that case, in England than in India?—That will be adjusted in the balance of trade.

6267. But how is the Secretary of State to take the gold out? The Government of India have to remit to England?—Not necessarily gold.

6268. The Secretary of State must sell drafts?—Not necessarily in gold. Remittances may come to England in the form of surplus produce.

6269. (*Sir James Begbie*.) You remarked with regard to the silver branch of the Gold Standard Reserve that you think it should be transferred to the Paper Currency Reserve?—Yes.

6270. When would you do that; would you do that at once?—Yes.

6271. These are rupees which have been coined outside the public demand for rupees?—Yes.

6272. I understood you to say that you would only issue rupees at a certain rate of exchange?—Yes.

6273. You would not apply that principle to this silver branch?—I would apply it with regard to the rate at which the transfer was made, yes; in adjusting the book entry, I should make the transfer at the import specie point.

6274. Do you think it is quite legitimate to add rupees to the currency in this way and to take gold in exchange for them?—Yes, I think it is quite legitimate in the present case of the Paper Currency Reserve and the Gold Standard Reserve.

6275. It is an addition to the silver currency which is not demanded by the public?—Yes, I do not think that the present four millions of silver in the Gold Standard Reserve has ever been demanded by the public.

6276. But you see no objection to putting that silver into the Paper Currency Reserve and taking gold out in exchange?—No, I see no objection in this particular case. I think it is desirable to do that to remove the present absurdity of holding silver in the Gold Standard Reserve.

6277. With regard to your proposal about the Gold Standard Reserve, you suggest that seven millions should be held in securities and the balance in gold?—Yes.

6278. In the event of the reserve being used, I understand you would draw upon the invested reserve first of all?—That would depend upon the conditions of the moment. If selling the securities in the reserve involved very heavy loss, then I should probably suggest shipping gold from India. If the securities could be sold at a profit I should sell them first, certainly.

6279. There is a great advantage in shipping gold, is there not, in place of the present procedure of selling bills against the Gold Standard Reserve in London? If gold is exported from India to support exchange, the first effect is to reduce the Indian currency?—Yes.

6280. The effect on the other side, supposing that the gold is shipped to London, is to increase the currency in London?—Yes; that is a very desirable and normal movement, in my opinion.

6281. And that effect is lost if you sell bills instead of shipping the gold?—Yes, exactly.

6282. With regard to the metal coming out of hoards, I am not quite sure that I understood what you said to-day. Do you think that metal only comes out of hoards in famine times—I mean metallic gold?—I find it very difficult to say under what circumstances metal comes out of hoards, because I think there is a great deal of misunderstanding with regard to hoards. I regard a hoard as merely in many instances a merchant's floating cash which he keeps in his house. Under what circumstances he brings that cash out it is very difficult to say. Of course, in times of famine, cash is released largely. It used to be silver ornaments before the closing of the mints, but now it would be cash, no doubt.

6283. You remember the circumstances of 1894, when exchange fell to such an extent?—Yes.

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6284. At that time very large quantities of gold came out of hoards?—Yes, they did, tempted by the low rate of exchange.

6285. And the high rate of gold?—And the high rate of the sovereign in India. I remember that very large quantities of sovereigns came down from Persia at that time, and they were purchased by myself. They were William IV. sovereigns in perfect condition.

6286. With regard to the loans from the Paper Currency Reserve, judging from past experience, comparatively small amounts would ease the market, you think?—I think so, yes.

6287. But if the effect was to ease the market, that is to say, to lower the rate of discount, the demand for those loans might increase?—Yes, it probably would.

6288. (Chairman.) I want to ask one or two questions. I think we have it quite clear that your great objection to keeping the Gold Reserve in London is the fact that the English gold reserves are insufficient, and therefore you think that the Indian Gold Reserve would be in danger of being used for other than its proper Indian purposes?—In the event of a grave national crisis, yes; not in any other circumstances.

6289. You criticise the English position because in your opinion we have too little gold in reserve?—I think so; I think the reserves of gold in England are dangerously small.

6290. They are less in proportion than those of any other great Power?—Yes; I do not think we should necessarily hold the same proportion as any other great Power, because I think that the smallness of our gold reserves is in a measure a barometer of our civilisation, but I do think that the reserves of gold in London at present have been cut a little too fine.

6291. On the other hand, we have, I suppose, a larger gold currency in actual circulation than any other nation?—Yes, I should think so.

6292. From this point of view is not the salient difference between our system, and, say, that of France, that they have their gold in reserve and tokens in circulation, whilst we, to a much larger extent, have our gold in circulation instead of in reserve?—That may be so to some extent, yes.

6293. So far as that is true, does not the present Indian system approximate to that of France and differentiate itself from that of England?—Yes, to some extent.

6294. The effect of the present system in India being to put a much larger proportion of gold into the reserve and a less proportion into the currency?—Yes, but in the case of India it is very much more dangerous, because I think India is not in a position to maintain the currency in the same way that France is. I think it is attended with very much greater risks in the case of India than it is in the case of France.

6295. Then am I right in thinking that if your policy were carried out you would reverse the position in India; you would draw the gold out of the reserves and put it into circulation?—No, not out of the reserves. Assuming a large gold currency in India, there is only one reserve in which gold would or need be held, in my opinion, and that is the Paper Currency Reserve. Apart from that, for the strengthening of the credit and reputation of India I should like to see as much gold in circulation as possible, but not at the expense of the Indian reserves.

6296. We have already agreed that, in so far as gold in circulation takes the place of either notes or rupees, it must be at the expense of the Paper Currency Reserve?—Yes, in so far as it takes the place of that currency.

6297. Would not the net result of that policy be to reproduce in India the position which you criticise in London, namely, to produce a condition of things in which there would be comparatively little gold in reserve, though there would be great quantities in circulation?—Not necessarily, I think, because gold in free circulation need not of necessity be accompanied by small gold reserves. In the case of London the small gold reserves arise from no other reason

than the disinclination of the bankers to pay the cost of keeping higher ones; that is all.

6298. Is it your view that Indian bankers would be wiser or more patriotic, and that they would make good the falling-off in the Paper Currency Reserve and keep as well any additional reserve that was needed?—I do not see that the Paper Currency Reserve will, or need, diminish with the increased use of gold as currency in India. I think with the development of the country, which is going on at a very rapid pace, there will be an increasing use both of paper currency and of gold in India.

6299. (Mr. Keynes.) May I ask a question? You are clear that the gold which you wish to be in circulation is not to be in place of notes, and is not to be in place of rupees?—Largely, yes. In the course of the development of the country the gold will come in. I do not think that the new gold will come necessarily with such rapidity as to displace the present token currency altogether. It will possibly at first displace it to a small extent, but what I am anxious is that in the growth of the currency which is now taking place the additions should not be made in depreciated silver tokens, but rather in full value gold coins.

6300. (Chairman.) So that as that growth proceeded, the addition to India's gold would remain in the form of currency, but not in the form of reserve?—Both, I think.

6301. How could it be both?—Because the country is growing the whole time, and needing more currency the whole time, and also it is advancing in civilisation, so that there would be, with an increasing use of gold as currency, a constantly increasing use of notes against which gold or securities would be held in the Paper Currency Department.

6302. You look forward to such a growth that there would be plenty of room for the addition, I think you said, of something like 70 millions of gold to the circulation?—Yes.

6303. And at the same time for a considerable addition of notes?—Yes.

6304. Without any contraction of rupees?—Without any very serious contraction of the rupee circulation other than arises from the normal and regular export of rupees from India to East Africa, &c. I think I estimated that it would take 7 to 10 years, perhaps, to bring about this state of affairs.

6305. I think that is a sanguine estimate. I have asked you all the questions which I want to put, but before you leave the chair I should like to give you an opportunity of adding anything. If there is anything you would like to say to which our previous questions have not given occasion, that is, of course, anything within the terms of our reference, please say it?—There are one or two matters in which I should like to supplement the answers I have already given.

6306. Please do?—Firstly with regard to the questions put to me by Sir Shapurji Broacha on the subject of my opinions now being different from—in fact, diametrically opposite to—what they were 15 or 20 years ago. Several critics have drawn my attention to this fact, and I should like to explain to the Commission the reason why I advocate a freer use of gold now rather than a freer use of silver. Fifteen or 20 years ago prices all over the world were diminishing; prices were going down, and money was appreciating in value. The construction which I put upon that was that there was not sufficient metallic money in the world to go round, and therefore that it was desirable to add to the metallic money available. Therefore, in the case of India I advocated the further coinage and use of silver money. But since then the position has been entirely reversed, and the output of gold has now become so enormous that to that gigantic output I attribute the fact that prices all over the world are rapidly rising, which I regard as an indication that the metallic basis, gold, is more than adequate for current requirements. In those circumstances, I think to add more silver to an already abundant supply of gold money is a very grave blunder, and that it is calculated to produce very serious economic crises all over the world owing to well-to-do people being tempted to over-trading and over-speculation and the poor

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population being pushed on to the verge of starvation. For these reasons I strongly protest against the coinage of further silver money where it can be avoided, and for those reasons I advocate the further use of gold. That is the explanation of why my attitude now is different from what it was 20 years ago. Then with regard to hoarding in India, upon which two or three questions have been put to me, I should like to correct, if I may, misapprehensions which exist with regard to hoarding in India. In the first place, a very large proportion of the population—over 90 per cent.—are illiterate; and this Commission, I think, will easily see the difficulties of advocating the use of cheques and banking and paper currency amongst a population, 95 per cent. of whom are unable to read or write. There are difficulties in the way of a very rapid development of banking and the use of paper money. Then, again, a very large proportion of the population live 20, 30, 40, or 50 miles away from a railway, and consequently it is extremely difficult for such people to put their money in banks and draw cheques on it. They must take their money away, and they must keep it in their houses, and for that reason they must keep a good deal of money on their persons or possibly buried in the ground; but I do not regard this as a sign of inherent viciousness on the part of the peoples of India, nor do I think that the peoples of India hoard gold so that it disappears and nobody will ever see it again. I am perfectly certain that, as education advances and as the railways are constructed, more and more of this money will come into circulation. The peoples of India are certainly as far-seeing and shrewd in commercial matters as the peoples of any other country in the world, and I am quite certain that this money will come into use and will in time be banked and will be employed exactly as we use it. I do not see, therefore, any fear whatever of gold going into India in enormous volumes and never being seen again. I think that is a bogey, which only scares those who have no knowledge of present-day Indian conditions.

6307. Your view is that at the present time the natives hoard because they really have no alternative?—From force of circumstances largely; partly, of course, from old associations and the feeling of insecurity, which has not altogether disappeared, but also partly because of the force of circumstances—partly because there is no other way in which they can handle their money. That is a point which I want to make with regard to hoarding. Then there is one other point I should like to bring to the notice of the Commission, and that is this: Whilst advocating the increased use of gold in the general interests, because there is so much gold about that prices are rising very largely—that is the general argument—quite apart from that I maintain that everywhere in the world it is recognised that people who use gold money for everyday purposes are at a more advanced stage of material development than people who are using silver, and I am quite confident that if India were using a gold currency freely she would stand very much higher in the estimation of the world generally than she does at present.

6308. You take a gold currency as marking a superior stage in civilisation to a silver currency?—Yes, but not so advanced, of course, as paper. It must

not be supposed for a moment that I am not understanding or seeing the use of paper currency, but in the case of India the great majority of the people, as I say, cannot read or write, and circumstances force them to hoard. Another consideration is that the conditions of climate make the use of paper currency exceedingly unpleasant sometimes, as a great many people must know who have to handle extremely odoriferous 10-rupee and 5-rupee notes. With all those circumstances taken into consideration, I think it is advisable, in the interests of India, that she should use gold freely before advancing to paper in the same way as England has done. I am quite sure that in due course India will use notes and cheques, and the statistics show that banking is increasing at an enormous pace, and that the deposits by the public in indigenous banks are increasing at a phenomenal rate; so that everything is moving in the right direction, and my advocacy of an advance to a gold metallic currency is made largely because I think it will add greatly to India's credit and reputation if she uses gold the same as English people all over the world use gold. I feel that in this matter it is up to us to give to India the very best metallic currency that we can before we commence to talk about paper; and because I think we ought to give India the very best metallic currency we can, and because the world conditions permit of the use of gold without doing anybody else any injury. I have for two or three years past urged the opening of the Indian Mints to the free coinage of gold, and the use of sovereigns as daily currency in India.

6309. I will just ask one question on that: Would you agree that the tendency of recent years among the great financial powers has been to make gold less and less the medium of internal exchange and to reserve it merely for the purpose of balancing external exchange? Yes, undoubtedly; and at a later stage, when India is using gold very freely as currency throughout the country, there will be plenty of time, I argue, for India to think about reducing her use of gold; but in the case of India, which is in many respects a backward country, it is impossible and undesirable to jump over the intermediate stage and to try to stimulate the universal use of paper before that widespread confidence has been established which you get from the free use of gold money.

6310. She must not profit by our experience, but she must really learn for herself?—You must go step by step, because the people cannot read and write, and in many respects are very ill-informed.

6311. (*Sir Shapurji Broacha.*) May I ask one question of fact? You know that gold production had gone down in 1887 to about 19 millions, but in 1898 it had gone up 300 per cent. again when you wrote that statement upon which I questioned you, and it was going up higher?—The output of gold was going up, yes, but up to 1898 the general level of prices had not been sufficiently affected to make it certain that it was desirable to alter our policy. Although the output of gold was increasing, the general level of prices throughout the world had not yet swung round, so that I could not be certain in 1898 that the output of gold was really so great as to make it desirable for India to use it then as currency.

The witness withdrew.

MR. WILLIAM BERNARD HUNTER called and examined.

6312. (*Chairman.*) Will you state first of all what your experience has been?—I have been for 25 years in the service of the Bank of Madras, the last seven years of which I have been secretary and treasurer.

6313. You are resident in India?—I am resident in India, yes.

6314. You have submitted a memorandum of the evidence which you offer, and I propose to print that as an Appendix to our Report (Appendix XXIV., page 591). What, in your opinion, is the principal object of the sales of Council drafts? Is it to effect remittances to London on Government account?—Originally the sole purpose

was for the transfer of funds on Government account, but since the closing of the mints I think that that is of secondary importance now, especially with regard to the conditions of the London money market. Otherwise than by very large shipments of gold, at a time which would probably be inconvenient, there is no other means of paying for the balance of trade.

6315. So that, in your opinion, at the present time the primary use of the sale of Council bills is to settle the balance of trade?—I think so, yes.

6316. Will you please explain in rather greater detail the method which you suggest might be adopted

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for providing the Secretary of State with funds in London as an alternative to the system of Council drafts, so far as these latter are regarded as merely a means of effecting remittances home?—The Government of India would be able to buy bills on London in India quite easily, primarily from the exchange banks. They could do so daily through brokers at various centres, Calcutta, Bombay, Madras, Karachi, Rangoon, and even in Northern India; and to meet the requirements of trade in that way there would be no difficulty in purchasing sufficient bills, primarily from the Exchange banks, and, if they were not sellers, then from the open market.

6317. Do you see any advantage in following that course rather than the present one?—No, there is no real advantage in that.

6318. It being, in your opinion, the fact now that the main object of these sales, or the most important object which they serve, is to settle the balance of trade, what would you say to the criticism that that work is not really the business of a Government Department?—Since the closing of the mints, the Government of India have practically undertaken to keep exchange steady, and therefore it could not be done by anybody else. It must be kept on by the Government.

6319. Do you think that nobody but the Government could undertake that business?—I think not. I think the credit required to maintain exchange takes it beyond any bank.

6320. I think you are in favour of the establishment of a central bank?—I am.

6321. But even if such a bank were established, you do not think that this part of the business could be advantageously transferred to it?—It would naturally be transferred to the bank, but the bank would do the operation solely as agent for the Government, and any profit made on the transaction would be a profit belonging to the Government. As Government would be responsible for keeping up exchange, and any loss must fall upon the Government, they naturally would be entitled to any profit. The advantage of transferring it to the central bank would be that the bank would be more in touch with the general market, and would know what the requirements were—when to sell and when to cease to sell.

6322. But if the responsibility remained on the Government would not the Government have to be strongly represented on such a bank?—Naturally the Government would require to be represented.

6323. The advantage therefore would be that in doing the work they would be associated with experts familiar with the conditions of Indian trade?—That is so.

6324. I think it is your opinion that if the sale of Council drafts were abolished, or if it were limited to the actual requirements of the India Office, the result would be a large increase in the amount of gold shipped to India?—Yes, certainly.

6325. What do you think would happen to the gold when it got to India?—A large proportion would immediately go into the currency reserve for notes to be taken out in exchange. Eventually those notes would be again presented at the currency office for silver, probably silver required in the up-country pieces.

6326. Then the first result would be a considerable accumulation of gold in the currency reserve?—A large accumulation of gold in the currency reserve.

6327. What would the next step be? Would the Government have to ship that gold home to London again?—The Government would eventually require to ship that gold home to meet their expenses, and also, when the silver supply ran short, to purchase further silver.

6328. Would the public have to ship gold home as well as the Government?—I do not think so—not at that stage. The public would only have to ship gold home later on should the exchange go against India.

6329. The net result would be the shipment of a good deal of gold to India, but it would only remain there temporarily, in your opinion, and it would have to be remitted home again?—Yes, it would have to be remitted home again.

6330. That would be a costly operation?—It would be a costly operation.

6331. With no advantage?—With no advantage. In fact, it would be a disadvantage, because it would tend to raise rates in London.

6332. I now turn to the question of the rate at which Council drafts are sold. I am not quite certain what your view is. Do you hold that no sales should take place under 1s. 4d.?—Yes.

6333. You assume that the gold point is always over 1s. 4d.?—I assume that the gold point is always over 1s. 4d.

6334. Suppose the Secretary of State is absolutely in need of funds at home, but could not sell at 1s. 4d., would you allow him to sell below?—No, I think he should not sell below 1s. 4d. He would only be absolutely in need if the whole of the Gold Standard Reserve had disappeared. If it comes to that point, the next step, the final step, must be to borrow in London.

6335. You think that the moment he is unable to obtain the rate of 1s. 4d. he ought to have recourse to the Gold Standard Reserve?—If he is in absolute need of funds he ought to have recourse to the Gold Standard Reserve or the Currency Reserve, first, if there is gold in the Currency Reserve.

6336. I think for the last few weeks the Secretary of State has actually been selling 20 lakhs a week at a rate below 1s. 4d. That you would say was wrong?—I would not approve of that.

6337. Unless he needed money immediately?—And even then, with gold in the currency chests in London, there is no necessity to sell below 1s. 4d. Rupees could be placed in India and gold released here.

6338. What is the object of your proposal that when bills cannot be sold at 1s. 4d. in London, they should be immediately offered at 1s. 3½d. in India?—In order to maintain exchange at about 1s. 4d., and to maintain confidence.

6339. The Government of India would make a profit on that transaction, would it not?—Having sold at a higher rate previously in London, they would make a profit.

6340. Would the business have any connection with the remittance of funds on Government account to London, or would it be done merely and openly for the convenience of trade?—I am inclined to put it rather that it would be done openly in order to maintain exchange, which the Government have practically undertaken to do. It is not only necessary for them to maintain exchange for their own requirements, but also for the benefit of trade.

6341. So that I take it it comes to this, that you want to see the Government supporting exchange continuously?—Continuously.

6342. And at an absolutely fixed point?—Yes.

6343. And not waiting, as they did in 1907, until the strain really threatens to break down the exchange altogether?—That is my opinion.

6344. Should I summarise your position rightly if I said that this Council draft system has two objects—I do not give them in your order of importance: First, the remittance to London of the funds required by the Secretary of State, and, secondly, the settlement of the balance of India's foreign trade?—Yes, I agree to that.

6345. Further, that as at present managed, the sales of Council drafts do not fulfil their second function, which you regard as the more important, so well as they might do, because there is no settled policy as to the sale of similar drafts in India?—Yes, I agree to that.

6346. And that, consequently, it would be desirable to find some way of distinguishing clearly between the two functions of the sale of Council drafts?—I do not think there would be any object in distinguishing between the two.

6347. Provided the result is obtained?—Provided the result is obtained. It might be a facility if the Secretary of State kept two balances in London, one a working balance and the other an exchange balance, but I do not think it would be necessary, so far as the general public is concerned, that they should know how

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much was in the working balance and how much in the exchange balance.

6348. With reference to your statement as to the way in which Council drafts should be met, have you any criticism of recent actions by the Government of India or the India Office in regard to the sources from which the sales have actually been made?—The sales are made always from the Treasury balances so long as sufficient rupees can be scraped together from anywhere. The consequence is that it makes restrictions in the money market in India. Of course, it is not so material at present, because in any case revenue as it is collected in India is locked away out of the hands of banks, and of no use to anyone.

6349. From what source would you meet them if you would not meet them from Treasury balances?—I should meet the sale of Councils first of all for the Secretary of State's immediate requirements from the Treasury balances, and if money was really easy in India I should continue to draw on the Treasury balances. As soon as the rates stiffened up it might be drawn from the silver portion of the Gold Standard Reserve, and that would not necessitate the earmarking of gold in London. As a last resource, I would do it from the Currency Reserve, which would mean the earmarking of gold in London.

6350. You would prefer to see a much freer recourse to the Gold Standard Reserve?—Yes, undoubtedly.

6351. And you have no fear that, using it as freely as you propose, it might be found deficient in time of severe crisis?—I think not.

6352. One of the features which the Indian Government and the Secretary of State have constantly to keep in mind is, of course, the amount of their liabilities in London, and particularly the interest on their debt incurred in London?—Drawing on the Gold Standard Reserve would be providing funds in London for that purpose, and equally on the Currency Reserve. The gold would be in the Currency Reserve and the silver would be released in India, which could be replaced, and the reverse operation put into force as revenue came in.

6353. I suppose you would hold that the less the Government of India has to borrow in London the better?—Within certain limits. I am strongly in favour of borrowing in London for further development of India so long as the London money market will take up the securities without unduly depreciating the price.

6354. Would you or would you not prefer to borrow in India if you could borrow there on equally favourable terms?—If you could borrow in India on equally favourable terms, by all means borrow in India freely.

6355. Would you go a point further and say that it was worth while to pay a little more in India in order to have fewer liabilities in London?—I think not, unless, by floating more loans, you could extract hoards.

6356. Do you think more could have been borrowed in India than has been done in recent times?—Not to any material extent.

6357. You do not think that the issue of loans in India would extract the hoards?—I think not.

6358. There have been some very successful issues in India lately?—Yes.

6359. Do you know whether small men have taken a share in those loans?—They are chiefly confined to large institutions and large people. Last year it was taken up practically by one man.

6360. They do not get passed on to the little man?—Afterwards; there is a fair amount of investment demand throughout the year on the part of small people.

6361. As that habit grows will it not tend to produce a bigger market for the loans?—Undoubtedly. It should be so.

6362. At present you do not think there is any material demand on the part of small people?—Not any material demand. There might be if the negotiability of the notes and the collection of interest were made easier, and there was less trouble in the event of the death of the holder. If troubles of those descriptions could be minimised, Government paper would probably become more popular.

6363. Are those troubles in regard to the registration of stock and transferring stock?—In India the paper is generally transferable by endorsement, unregistered, and then the great difficulty is when these notes come into the Public Debt Office, with regard to the endorsement—illegibility or slight differences in the signatures.

6364. I turn now to the management of the balances. Have you any criticisms to offer as to the size of the balances, either in London or India, of recent years?—The balances have undoubtedly been abnormally large, but I think that is due to unusual circumstances, and I see no reason to complain of the position.

6365. You recognise that they have been abnormally high, but under the circumstances you make no complaint of that?—I make no complaint of that.

6366. Do you criticise the fact that so much of the balances has been brought to London or not?—I see no reason why the balances should not be brought to London as they were. There was plenty of money left in India; we were not restricted in any way by the fact of the large sales of Councils, because there was still plenty of money available to be lent out if it could have been.

6367. You think that some of the money which was in India should have been available for the market?—It should have been available, yes.

6368. Assuming the continuance of the present state of things,—I will come to the question of the Central Bank later—to whom would you recommend that such loans should be made?—My contention is that the Government of India should never withdraw currency from actual circulation; as quickly as it is withdrawn it should be put back again.

6369. Put back into the banks?—Yes, into the banks.

6370. Would you think it right for the Indian Government to require security from the banks?—I do not think it is necessary.

6371. The Indian Government, I think, already keeps considerable balances free with the banks?—They keep certain balances.

6372. You do not propose a mere unlimited addition to their non-interest-bearing balances with the banks, do you?—I should say it would be in the interest of the country at large if their balances were put in freely without interest, in the same way that Government balances in England are placed with the Bank of England.

6373. Without interest and without security?—Without interest and without security. If the banks have to pay high rates of interest to the Government of India it will then be impossible for the banks to finance trade at cheap rates. There would still be the higher rates of interest.

6374. (*Sir Robert Chalmers.*) Is that true universally? The rate at which you can lend depends on the rate that you pay, does it not?—Yes.

6375. Therefore, perhaps you would qualify your previous statement and not make it too universal. There would always be the power of lending at a moderate rate if a moderate rate were charged?—If a moderate rate were charged, yes; to that extent it would be so.

6376. (*Chairman.*) And any addition to the amount of money available for loans would tend to the reduction of the rate?—Yes.

6377. Would you advocate the closing of the reserve treasuries and the transfer of all the balances to the existing Presidency banks?—I think that would be a move in the right direction.

6378. There are many places where there are Treasuries, but where the banks are not at present represented, are not there?—Yes, there are many places where the banks are not represented, but with more money the banks could then open many more branches.

6379. I think we have had it in evidence that the Government have been endeavouring in recent years to get the banks to open at fresh points?—They offered certain conditions; they offered a free balance of three lakhs of rupees for a term of five years for a new branch that was opened, but at the end of that,

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five years the balance was then reduced to a mere nothing; and with the opening of that branch the bank has to undertake to do a lot of work for Government. It really means that you have to keep up a large staff; they have to keep two Europeans in the branch instead of one, and in other ways it is very expensive, so that the conditions offered are really no inducement excepting for the five years that they are in operation.

6380. So that, in your opinion, the extension, as far as it has taken place, has not been profitable to the banks?—It has not been profitable to the banks.

6381. On the other hand, we have had it in evidence that it has not been profitable to the Government in the sense that the balance which they have had to leave with the banks has been higher than the balance which they need have kept for themselves?—I think, as a matter of fact, so far as the Bank of Madras is concerned, which I represent, we only opened three new branches, and that meant nine lakhs of rupees, which is not a very large sum* of money; and, so far as I know, there were not very many branches opened by the other Presidency banks.

6382. I think we have had it shown to us, that owing to the convenience which the Government possesses in the currency chests, they were actually able to work on smaller balances when they had the reserve treasuries open than they had to lodge with the banks in order to induce them to open and take the business over?—Yes.

6383. (Mr. Gillan.) That merely means that in the case of these three branches which you opened we could probably have run in place of those three branches three treasuries ourselves with less than a minimum of nine lakhs?—Yes, undoubtedly you probably would have run it on the balances that you now leave with us—about half a lakh at each branch, that is to say, about 3,000l. at each branch.

6384. (Chairman.) Altogether that does not seem a very hopeful reform, does it? You represent to us that it is unremunerative to the banks?—Yes.

6385. And the Government have represented to us that it locked up more of their money than was otherwise locked up?—Yes, but I think that perhaps indirectly the Government gain by the banks extending business.

6386. (Mr. Keynes.) You do not maintain that it is unremunerative to the banks during the five years, do you; it is only after the five years?—It is only after the five years. During the five years that the agreement is in existence it is quite a good remuneration, and a good profit is made.

6387. (Chairman.) I had not understood that; I am glad of the correction. How far do the sales of Council drafts act in releasing funds in India? Suppose the India Office sold them in the busy season to such an extent as to use up the extra six crores which the Government collect as a balance against the summer and the autumn, would that meet your difficulty?—It would be an assistance, but the fact remains that the first step in the operation is the contraction of currency by the withdrawal of revenue from the market, and the sale of Council bills only comes into operation when the produce has reached the coast and is being exported. The inland trade is therefore starved; in fact the rates are high and it is difficult to get it financed, and people have to part with their crops at any rates that they can get for them.

6388. You spoke just now of the Indian Government imitating the English Government in keeping its balances with the Bank of England. I think the British Government from almost the commencement of its financial year is a borrower; the bulk of its revenue comes in late in the financial year, and therefore when that comes in the Government uses it to pay off debt incurred in the earlier portion of the year, and does not swell its balances. It does not remain in the Bank of England, though it may pass through the Bank of England. Is the position in India at all similar?—No, the position in India is not. The Government never borrow from banks except in the form of the open loans which they put on the market.

6389. So that the comparison with England is not quite complete. In England the Government is really returning to the money market money which is borrowed from it?—I misunderstood that. The statements of the Bank of England do not show that. They always show a very large sum deposited as public deposits.

6390. Perhaps I ought to say that I am speaking now of the Exchequer balances, not of the gross balances?—Of course the gross balances are what I was talking about. It always shows in the Bank of England statements very large sums due.

6391. If your policy were not adopted, would you advocate the making of loans from Government balances in the busy season to the Presidency banks?—Yes, I think that would be a step in the right direction.

6392. In that case interest would have to be charged?—In that case interest would have to be charged.

6393. Something a little below bank rate I suppose would meet the case?—I should put it at the rate which banks are offering for short term fixed deposits.

6394. Do you think such loans might be made to other banks besides Presidency banks?—I think within reasonable limits.

6395. Not without security, I take it?—To some banks I think decidedly without security.

6396. Would you lend to private firms as well?—I think not.

6397. Do you think that Government ought to lend to any bank either in India or London without security?—Do you mean lend to any bank without restriction?

6398. I mean no matter how secure the bank; I am not reflecting on the bank, I am assuming that they have chosen the soundest bank that they can find. Do you think that even then a Government ought to lend without security to a bank?—I see no great objection within limits.

6399. You think there would be no objection?—I see no real objection within limits.

6400. (Sir Robert Chalmers.) There would be no objection on the part of the banks, anyhow?—Certainly there is no objection on the part of the banks.

6401. (Chairman.) Do you think that a large sum would be taken by the banks if the Government were willing to lend it, or would a small sum meet all their requirements?—At first I do not think very large sums would be required; probably from three to four crores would see you through the busy season.

6402. (Sir Robert Chalmers.) Do you mean for all the banks, taking India as a whole?—Yes, taking India as a whole I think three or four crores would ease the situation very much.

6403. (Chairman.) You say that would be sufficient at first?—Yes.

6404. Do you look forward to the demand growing?—I look forward to the demand growing. Probably the banks would then be enabled to carry more Government securities, and so help on the development of the country.

6405. (Sir Robert Chalmers.) You think that there would be a growing demand by the banks for assistance from the Government?—I think probably so.

6406. You do not think that that extra demand on the Government would be relieved as time went on by new sources in their own domain coming to the banks?—To a certain extent, but the deposits grow very slowly. We find that as we extend our branches out into the outlying countries the demand is always for loans; the amounts which have come in on deposit are quite infinitesimal.

6407. As I understand it, you told us that there would be a growing dependence on Government?—That as we extended we could utilise more funds.

6408. You have to get those from the Government?—Yes, because Government have withdrawn it from circulation at the busy season. India is so much a seasonal country; for six months in the year money is very tight and for the other six months it is very easy, and the time when money is very tight is the time when Government balances are particularly high.

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6409. (*Chairman.*) It is at the moment of the great demands that Government collects the major portion of its revenue?—Yes.

6410. Or at any rate a large portion of its revenue?—Yes, it is just at that time.

6411. You would not suggest that the Government could alter its period of collection?—No, I think that would be impossible. They collect the revenue as the crops come in, and if they did not do it then they would have difficulty in doing it at all.

6412. It is a necessity of the situation that the demand of the Government should synchronise with the demand of the trade?—I think so.

6413. If the market received such assistance as you have suggested through loans from the Government to the banks, and had got into the way of expecting it, what do you think would happen if in some particular year it was inconvenient to the Government, or impossible for the Government, to give it?—In such a year I should imagine that the reason why Government were unable to find the finance would be that the revenue was not coming in, and therefore the money would not have been withdrawn from active circulation and the crops would be short, and a very much less amount of money would be required to finance.

6414. Is there not another possible contingency, that the revenue might be coming in but it might be going out even faster, that is to say, you might have a war, for instance?—There is a possible contingency there.

6415. Would you fear the creation of a crisis by the sudden withholding from trade of the assistance upon which it had come to rely?—It would not be pleasant, but I do not see that there would be any great danger if the banks were given the power of borrowing elsewhere.

6416. Borrowing where?—In London.

6417. As an alternative to loans from the balances it has been suggested to us that loans might be made from the Paper Currency Reserve. Let me just ask one question at this point. Suppose such loans were made from the Paper Currency Reserve, would you regard that as a complete solution of the question, or would you still think it necessary that the large balances in reserve treasuries should be lent out as well?—I would not consider it as a complete solution. I think that undoubtedly the first place the loans should come from are the idle balances lying in the reserve treasuries and that the loans from the currency reserves should be more or less a last resource.

6418. Would it not be the case that the time at which such assistance would be required by trade would be just the moment at which you could most readily afford to withdraw something from the currency reserve?—Yes, I think so.

6419. I will put it in this way to make my meaning clear. That would be the time when the circulation of notes would be tending to rise, not the time when they would be coming back for encashment?—No, I think as a matter of fact during the busy season the demand is largely for specie from the currency, and that the notes in which the reserves at the bank are held are presented at the currency for encashment. It might not show actually in the note circulation returns, because there you have to take into consideration the number of notes which have come back into the treasuries, and are held in the treasuries up country.

6420. (*Sir Robert Chalmers.*) But taking the circulation as a whole, it would be a time when the circulation would be larger?—Probably—the apparent circulation.

6421. But not the real circulation?—I do not think the active circulation would be larger.

6422. (*Chairman.*) Not the active circulation of notes?—No, but I cannot speak authoritatively upon that, because I have never had the figures to show what proportions of the Treasury balances held in those numerous treasuries up country are held in notes and coin.

6423. (*Sir Robert Chalmers.*) If the total circulation with which the Paper Currency Department is primarily concerned were large, then that would allow of the fiduciary portion of the issue being more safely lent out at a time when loans would be very valuable to the

trade and when it would be, on this hypothesis, safe to lend it out. Do you agree to that?—In my opinion it is the active circulation which is the important basis.

6424. (*Mr. Keynes.*) Is it not the case that the active circulation is greatest in the busy season?—I do not think so.

6425. I have the figures before me, and in all recent years the maximum circulation has been in January, February and March, and the minimum in June, July and August. For instance, in March 1911–2 the active circulation was 44½ crores, and in June of that same year it was 38½, that is to say the active circulation was 6 crores higher at the end of the busy season than it was in the dull season?—Can you tell me exactly how the active circulation is arrived at?

6426. The active circulation is the gross circulation less the holdings of treasuries and Presidency banks?—Less the holdings of all the treasuries, or only the reserve treasuries?

6427. Of all treasuries, I think.

(*Mr. Gillan.*) Yes. In the last Currency Report it says: "As usual, the aggregate amount of notes in the hands of the public"—that is the active circulation—"was greater during the winter months than at other times of the year."

6428. (*Chairman.*) Taking the figures which have been suggested to you, and assuming the accuracy of them?—Then I must withdraw my statement.

6429. Then you would agree with the suggestion I put to you?—Yes.

6430. That the time when trade most requires assistance is the time when the currency reserve can best afford to give it?—Yes.

6431. (*Chairman.*) I come now to the question of the Gold Standard and the Paper Currency Reserves. Do you regard the keeping of a Gold Standard Reserve as necessary?—I do not know that it is essential, but it is desirable.

6432. Do you approve of the present distribution of it between India and London?—Yes, certainly.

6433. You raise no objection to keeping a portion of the Gold Standard Reserve in silver in India?—At times it will be necessary if you keep the reserves separate; at such times when India has to sell on London the proceeds of the drafts must go into the Indian silver branch. I do not know that it is necessary always to keep six crores in silver, but it is helpful to the currency reserve, and it enables more gold to be held in the currency reserve, and I see no objection to it.

6434. As far as there is silver in the Gold Standard Reserve, I understand you think the proper place for that silver is India?—Yes.

6435. On the other hand, so far as the Gold Standard Reserve consists of gold or gold securities you think the proper place for it is London?—Undoubtedly.

6436. Will you give me your reason for that?—Because it is only in London where it will be required.

6437. Have you any figure in your mind for the total to which it should be sought to raise the Gold Standard Reserve?—In my opinion the Gold Standard Reserve should be increased continually as long as new rupees are being coined. The difference between the price of the silver and the circulating price should practically be held in trust for the public, and should be invested.

6438. Would you continue to put the whole profits of the silver coinage into the Gold Standard Reserve?—Yes, into the Gold Standard Reserve.

6439. You would continue that practice indefinitely?—Indefinitely.

6440. As regards the form in which the bulk of the Gold Standard Reserve should be kept, would you keep any portion of it in gold?—I do not think that it is necessary to keep actual gold when the gold in the currency reserve is strong.

6441. Provided therefore there was a large amount of gold in the currency reserve, I understand from what you say and from your memorandum (Appendix XXIV., paragraph 11, page 592) that you would invest the whole of the gold reserve in securities?—Yes, that is right.

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6442. Not merely in short dated securities?—No, a portion of it should be in short dated securities and temporary loans, but a large portion might safely be permanently invested.

6443. I think in paragraph 12 of Appendix XXIV. (page 592) you suggest that in case of a heavy demand falling on the Gold Currency Reserve there would be no difficulty in realising such securities in London?—I think not, if your reserve of actual gold in the currency reserve was large, and you first released your gold and then immediately afterwards sold or borrowed on the securities.

6444. You would treat the gold in the currency reserve as —?—As the first line of defence.

6445. As the first line of defence for the exchange?—Yes.

6446. And only as you were coming to the end of that would you think it necessary to realise the securities?—No, I should do it practically simultaneously—release, say one million from the gold reserve and simultaneously either sell the securities or temporarily borrow upon them, but the releasing of the gold would prepare the markets.

6447. Suppose at the present moment it was necessary to have recourse to the Gold Standard Reserve, do you think that you could sell 10 millions of securities on the London market?—I think if you first released 15 millions of gold and placed that in the Bank of England you would not have very much difficulty in arranging for that. If they did not actually buy your securities they would temporarily advance against them. At present the proportion is one-and-a-half in gold to one in securities. That seems to me to be a very strong position.

6448. You think the gold released in India from the Paper Currency Reserve —?—It would have to be released in London. It must be released in London. You would immediately stop issuing gold in India at once.

6449. In the case of such a crisis you would refuse to issue gold in India?—I would refuse to issue gold in India, because the gold issued in India immediately goes into the hands of the bullion dealers. They take it up as a speculation; they can get it very much cheaper than they can by importing gold.

6450. Do you think the gold released in India or gold in circulation in India is not available for the support of exchange in a crisis?—I think not. I do not think it would ever be forthcoming in any large quantity.

6451. Then your suggestion that it is safe to keep the London portion of the gold reserve in securities is based upon two assumptions, first that there will be a large quantity of gold in the currency reserve, and secondly, that that will immediately be used in case of need in London?—Yes, in London.

6452. And would be refused to India?—It would be refused in India. It would not be necessary in India if the Government sells sterling bills immediately.

6453. (Mr. Gillan.) May I ask at what point you would stop this giving out of gold in India? What I mean is that a crisis generally seems to come on very gradually, and you have, perhaps, very considerable withdrawals of gold going on; presuming they are going on at this present moment, you are weakening your position before the actual crisis comes?—You are weakening your position by issuing the gold. I should stop issuing the gold from the reserve in India immediately the Secretary of State was unable to sell his Council bills at 1s. 4d. and simultaneously offer to draw on London.

6454. (Chairman.) I think the effect of what you have said is that you would to a large extent use the Paper Currency Reserve as a first line of defence for the Gold Standard. In view of that fact, and, of what I think is a fact, that the Indian branch of the Gold Standard Reserve is very largely a Paper Currency Reserve, what would you say to the possibility of amalgamating the two reserves?—I do not think that the amalgamation is really desirable. I can see no benefit in so doing, and it rather hides the position. If you show great strength in a special reserve specifically for keeping up exchange it has a good effect.

If you amalgamate the two reserves, the only thing that I can see would happen would be that you would increase the amount of silver held by, say, six crores and the invested portion by 15 millions and perhaps two millions in gold, and against that you would have to issue in India the equivalent in notes; and if you utilise those notes for public works then your Gold Standard Reserve has disappeared; if not, you are simply holding the reserve nominally in India in notes.

6455. I think some of the criticism which has been directed against the management of the two reserves has been that they have been to the extent that you advise interchangeable. It has been objected, for instance, that the object of the Paper Currency Reserve is to guarantee the encashment of rupee notes in rupees, and therefore any gold there is out of place, but the object of the Gold Standard Reserve on the other hand is to guarantee the exchange, and therefore any silver there is out of place?—But if the reserve will answer the two purposes it surely would be a mistake to earmark it for one only.

6456. You do not think that any serious confusion arises from the existing practice?—Certainly not.

6457. In paragraph 16 of Appendix XXIV., page 593, you say "The invested portion of the reserve"—I think you are speaking of the Paper Currency Reserve—"lacks elasticity, and in this respect the Paper Currency Act requires amending." Will you tell me what is in your mind as regards an amendment of the Paper Currency Act?—At present under the Act the total amount of fiduciary issue is limited to 14 crores against the circulation of something like 66 crores at the present moment, and at a time of active trade when there is a demand for more currency it would be a great advantage to increase the fiduciary issue. I think that probably it might safely be increased to a proportion of the total circulation.

6458. To what proportion would you say?—I would say up to perhaps 35 to 40 per cent., and that assuming that you had invested up to 40 per cent. and notes then came in for encashment, it should not be necessary immediately to realise your securities until such time as the percentage reached something between say 55 and 60 per cent.

6459. I do not quite follow that. You would raise the proportion of the fiduciary issue by law to about 40 per cent.?—Yes, you could invest up to 40 per cent. Assuming that you have invested that 40 per cent. and notes come in for encashment, your specie reserve would then have fallen below 60 per cent., but I would not say that you must then immediately sell your securities, because that would tend to bring about a crisis, but you would allow the invested portion to rise to about 60 per cent.

6460. You would be getting into a rather dangerous position by that time, would you not?—Naturally, before you reached your 60 per cent. you would be gradually realising. That would be the limit, but it would be dangerous to force you to realise immediately you reached the 40 per cent.

6461. It has been suggested to us that if the proportion of the fiduciary issue were increased, as you propose, it might be wise for the Government of India not to invest up to the full limit allowed in permanent investments, but to keep a proportion from which they might make those loans to trade which you think so desirable?—That was my idea—for that purpose specially.

6462. That they might lend temporarily?—Yes.

6463. On securities?—On various securities, trade bills among them. Perhaps the best class of security would be foreign trade bills; naturally they would turn themselves into cash in a very short time.

6464. You would not insist upon the deposit of Government securities?—Not necessarily; I think not. Of course, what I strongly advocate is a central bank with the note issue, and then the general assets of the bank would be held against it.

6465. Before we come to that I want to ask you one or two other questions. Have you any general observations or criticisms upon the present management of the note system apart from its inelasticity?—

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I think that more could be done to popularise the circulation of notes by the opening of numerous currency agencies where, not necessarily by obligation to be imposed, but in practice, notes would be freely encashed, and *vice versa*.

6466. Where Government would undertake to cash them as long as it was convenient?—Yes, as long as it was convenient.

6467. But without undertaking a legal obligation?—Yes, and where they would be prepared to go to the expense of remitting coin when necessary.

6468. Would you suggest that the higher denominations of notes should be universalised?—I see no objection to it. I do not think it would cost so very much. It would undoubtedly cost something to Government; Government would lose what at present they make on the exchange which they charge for currency transfers, as for instance, from Calcutta to Rangoon they charge one-eighth per cent., and from Madras to Bombay one-sixteenth per cent., and so on. It would immediately lose that, but indirectly I think the gain would cover it.

6469. The internal transfer of money would then be done by notes?—It would be done by notes, and the mere fact that you could transfer notes from one place to another and obtain silver would to a certain extent in my opinion reduce the demand for the coin.

6470. Now let me turn for a moment to the question of a gold mint and gold circulation. You say that in theory there is something to be said on the side of the advocates of the gold mint. What have you in mind?—The mints are closed to silver, and I think it is reasonable that the holders of precious metal should be enabled to turn it into coin of the realm; and in India especially what I really had in mind is that in times of scarcity those that hold gold should be able to convert it readily into coin or the equivalent.

6471. From your observation that you believe in practice the mints would be silent, I gather that you do not think much gold would come in?—I do not think much gold would come in, not sufficient to justify the mints, but in place of that the gold could be received and Government could bear the cost of shipping it home.

6472. From your point of view a mint is a rather expensive luxury?—Yes, it would be more economical simply to ship the gold home. While it is in transit it can be held as a portion of the currency reserve.

6473. You do not think they would get the gold produced by the Indian mines tendered for coinage?—They might, but that is quite a small quantity; it is about two or three millions, I think.

6474. You say that in times of stress there is something to be said in theory at any rate for having a gold mint, where natives who have hoarded gold can bring it to be coined?—Not necessarily to coin it in India, but simply to present the gold and have it assayed and refined, and get cash for it.

6475. Then, as far as there is in your view any reason for a mint, the purpose would be equally served by an undertaking from the Government to purchase gold?—Yes.

6476. Would not the receipt of gold at the mint be simply a duplication of the existing system by which gold is received at the paper currency chests?—At the paper currency chests it is only sovereigns that are accepted at present.

6477. Not gold in bullion?—No, not gold in bullion; so I understand. Originally, when the mints were first closed to silver, gold in bullion was received, but I understand that that facility has been withdrawn.

6478. Does your experience lead you to think that the public have any difficulty in getting sovereigns when they want them in India?—Not any real difficulty. There are certain restrictions in Madras; I speak for Madras only. Sovereigns are issued in 10,000 at a time only, but I do not think that is any real difficulty. The banks can always get what they want. They build up the reserve themselves.

6479. There is not a very large demand for gold as currency in Madras, is there?—In two parts of Madras. In fact, the two native States of Cochin and Travancore since 1903 we have financed entirely by gold, and in

Travancore and Cochin the gold is, you may say, in active circulation now, but that has been the case only since last year. Up till then in the busy season, that is, when the export season was on, gold was circulating very freely in the bazaar, but when the export season ceased and the import season was on—they import very large quantities of rice from Burma—the money that came down from up-country in payment for the rice was entirely in rupees; but this last year I noticed that a certain portion of the accumulations in the slack season has been in gold, and I understand that in the Travancore Government treasuries there is a fair amount of revenue now paid by gold.

6480. Does that indicate a change in the habits of the people; does it mean that they are hoarding less?—I think that probably it means that the rupees which they had originally in hoards have all come out now and have been replaced by gold, and it now remains to be seen whether in the future they will be prepared to take all gold or whether we will not have to send a very large quantity of silver down there now. A curious thing is that in those places they will not look at notes.

6481. (*Sir Robert Chalmers.*) Historically gold was a great portion of the currency in Madras?—Yes, but I think in those days the actual circulation was very small, and almost everything was paid in kind. All wages would have been paid in kind, and rents were paid in kind. In fact, in some places in Madras now rents are still paid in kind.

6482. The metallic currency of Madras in the old days was the swami pagoda?—Yes, the actual gold coin.

6483. Gold currency has a historical basis therefore in Madras?—Yes.

6484. (*Chairman.*) I suppose you feel that as bankers your business is to give the public what they ask?—Yes.

6485. But you have a preference; if you could influence them would you influence them to take gold rather than notes or *vice versa*?—I do what I can to influence them to take notes. I am always prepared in the up-country branches to buy bills on the centres at a cheaper rate if they will take the proceeds in notes, and to some extent we have been able to increase the circulation in this way.

6486. Will you tell me briefly your reasons for encouraging the circulation of notes rather than gold?—The chief reason to my mind is that the gold would then be in the central reserve, it would be obtainable when it was wanted, and also that the larger your circulation of notes is the smaller the quantity of gold which would be necessary because you would increase your fiduciary issue according to the increase of the issue.

6487. I take it that you hold that gold is a wasteful medium of circulation?—Yes, I agree to that.

6488. That the more it enters into circulation in displacement of notes or rupees the less the profit which the Indian Government can obtain?—Yes.

6489. Further, I understand you to hold that gold in reserve is infinitely more valuable for the maintenance of the exchange than any amount of gold in circulation?—Yes, I agree to that.

6490. You say in paragraph 27 of Appendix XXIV. (page 594) that the Mahomedan law of succession directly leads to the hoarding of gold. I do not want to go into that at length, but could you briefly explain to me how that is?—We will take the Hindu law of succession. I must exclude Bengal where the law is somewhat different, but generally speaking all over India according to the Hindu law of succession the family is an undivided family and the property is divided among the male members of the family; so that although a man may have unlimited means, may have his investments in stocks and shares and deposits in banks, and may even specially insure his life in favour of his wife, yet the widow cannot claim twopence; the only things that she can claim are the gold ornaments which she possesses, and I believe it is now extended to actual gold coin which she has in her personal possession. The man might have no sons, but if there was some

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scamp of a nephew all the property must go to the nephew.

6491. So that it is in fact the only provision that a man can make for his wife or daughters?—Yes. Then with regard to the Mahomedan law of succession, that is different, because there the wife and daughters are entitled to a certain proportion; but then they are entirely *goshu*, that is to say, they cannot go out, and they are dependent entirely upon agents to look after their affairs, and they are very badly swindled; in fact, they practically get nothing. If I may say so, since I wrote this I have had the advantage of having a conversation with a member of the Egyptian Government connected with finance there. I was talking over the matter, and he told me that exactly the same thing exists in Egypt.

6492. Now I come to the question of a central bank. You are strongly in favour of the establishment of a central bank?—I think it would undoubtedly be a good thing for India.

6493. Am I right in thinking that you regard the reserve treasury system as the chief cause of the annual periods of stringency in India?—One of the causes—the reserve treasuries and also the accumulations in the other treasuries.

6494. It is to remedy that condition of things that you propose the establishment of a central bank which shall hold all the balances of the Government of India, and of the India Office?—Yes, that is one of the reasons.

6495. Will you give me your other reasons?—Such a bank would also have much greater credit, and, with a London office could in times of stress be in a position to raise further finances. Then again, it would do away with the trouble as to where the balances of the Indian Government were to be located. It would not matter whether they were with the London office of the bank or with the Calcutta office, because they would still be available in the reserve of that bank, and would enable it to finance more trade. If they were in London they would also be of assistance in London, because they would be with the Bank of England.

6496. You contemplate that such a bank would manage the paper currency system?—They would take over the paper currency and the bank would be in a position largely to increase the circulation. It would be so much to their interest to increase it, and they would be prepared to spend more in moving specie about for the encashment of notes, looking indirectly to the profits which they would make on the invested portion.

6497. Do you contemplate that the Government would transfer the whole of the profits of the note issue to such a bank?—That is perhaps a matter of detail to be arranged afterwards. I should not think that the bank would ask for the whole profit. I should think that probably the Government would be entitled to the average profit which they had made for the last so many years, and if they were interested in the bank in the way of shareholders as well—and I see no reason why they should not be interested—they would then benefit by the profit made by the bank.

6498. How do you contemplate that such a bank should be brought into existence. Is it to be superimposed on the present banking arrangements of India or is it to have its birth in the amalgamation of the existing Presidency banks?—By the amalgamation of the existing Presidency banks. I do not think there is room in India for a big central bank and the Presidency banks as well.

6499. The mere amalgamation of the banks with their existing resources would hardly answer your expectations, would it?—Necessarily if we were taking over the note issue we would have to increase our capital. That would be expected of us.

6500. You talked just now of having the Government as shareholders. Are you looking to the Government for the increase of capital, or only for a portion of it?—I thought, as a matter of fact, that it would be possible for the Government to take up a great portion of the new capital from their silver branch of the Gold Standard Reserve. They have at present got six crores there, and if they simply put

those six crores into the currency reserve, and issue six crores of notes, the transaction is complete, and it is interest bearing, and the rupees which you put into the currency reserve are just as useful there for the purpose for which they are held as they are at the present moment.

6501. You invest six crores of the currency reserve in bank shares?—Of the Gold Standard Reserve. You put the silver into the currency reserve and issue notes, and thus increase the capital of the bank.

6502. The rock bottom of the whole thing is that you have invested six crores of the Gold Standard Reserve in shares of the Bank of India?—In shares of the Bank of India. It is not necessary that the Government should hold the shares indefinitely; it is only if the central bank is approved that that would be the way in which it could be formed originally, and they could gradually get rid of the shares in the market if considered desirable.

6503. What control or representation on such a bank do you think the Government would have?—It would be necessary to have a number of local boards in in my opinion; you would have one in London, one in Calcutta, one in Bombay, one in Madras, and perhaps, if necessary, in other centres later on, and I think certainly that the Government would be entitled to have representatives on the directorate.

6504. Would you give the Government representatives a veto or would they only vote like their colleagues?—I think the mere fact of their being present would be sufficient. Of course, they would have, indirectly, practically a power of veto, as the central bank would be so much dependent on their goodwill, and if the central bank were doing things of which they did not approve, the Government would immediately withdraw the facilities. It would bring such pressure to bear, that really all that is necessary is to have directors who will watch what is being done.

6505. Supposing all the balances were transferred to a bank of this kind, do you think that in normal times it would set free much money which is now locked up?—I think so. I think that a large portion of the balances in the treasuries would be available, especially if, later on, they were able, as I surmise they would be able, to increase the circulation of notes. It would be then a very much simpler matter to bring all the funds as they are collected in the sub-treasuries, to the headquarters immediately by note remittances.

6506. This bank would combine in one reserve the banking and the currency reserves of India now divided between the Presidency banks and the Government?—Yes, banking, Government reserves, and treasury reserves.

6507. It would take over, as I understand, the whole of what you might call the banking business now done by the India Office?—Yes.

6508. The sale of drafts on India?—Yes.

6509. And the lending out of balances in the city of London, if necessary?—Yes.

6510. Would it also undertake the business of keeping exchange steady?—It could only do so as the agent for Government. The Gold Standard Reserve fund would remain a Government Fund, and the Government would still have the profits on the minting of silver, and they would have to bear the cost of maintaining the exchange.

6511. The responsibility for the management of the Gold Standard Reserve would still necessarily remain with the Government of India?—It would necessarily remain with the Government of India.

6512. And it would only be through the use by Government of that reserve that the exchange could be maintained?—Yes.

6513. Do you think that the Government could safely leave such very large balances with a bank of the character that you have described?—If it were a bank with roughly a capital of 10 millions as was suggested, the comparison would then be as I have shown in my statement; in the case of the Bank of England the percentage of capital to liabilities is 18·6 per cent., as compared with the Bank of France 3 per cent., the German Imperial Bank 7 per cent., and the suggested Bank of

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India 14 per cent.; that is to say, 14 per cent. against the Bank of England which is 18 per cent. That is the largest; it is much higher than the others. If you take the proportion of specie reserve to liabilities the suggested bank would have 53 per cent. as against the Bank of France, which is the largest, 60 per cent.

6514. Of the 10 millions pounds which you are allotting to the bank four millions would in effect be the Government's own money?—Temporarily, until they realised.

6515. Until they disposed of the shares?—Yes.

6516. Do you not think that, with the responsibility which you would leave to that bank for large Government balances, and above all for the note issue, it might be necessary to insist that the shares should have an uncalled liability. I understand that at present the Presidency banks are fully paid up?—The shares of the Presidency banks are fully paid. I think from one point of view it might be desirable, but it might put difficulties in the way of the scheme.

6517. I quite understand that?—I mean because so many of the shareholders are retired officials with pensions, and they would not like to saddle themselves with a liability of that description.

6518. Supposing that it were held that there must be uncalled capital in order to provide a sufficient guarantee of security, do you think that the objection to that would be so strong as practically to make it impossible for the Presidency banks to come into the scheme?—It might wreck the scheme. It is not possible to say definitely. It would be a pity I think to run the risk.

6519. Great importance has been attached by some witnesses to the present local management of the banks. If I may refer to a particular witness, here is what one witness says: "Each of the three Presidency banks has evolved a practice adapted to its own environment and their absorption by a State bank would in a large measure involve the sacrifice of the advantages to trade which this specialisation secures"; and he goes on to say that he thinks it of great importance that there should be local management in order that the policy of the banks may be directed to meet the local requirements.* You do not think that the necessary centralisation in creating a State bank would interfere with the banks' power to meet the different needs of the different localities?—I think not, with local boards given sufficient powers.

6520. You would have to give considerable powers to the local boards?—Yes, you would, and certain safeguards, so that the resources of one Presidency would be available for that Presidency. It would all be a matter of the general arrangements, and I see no reason to anticipate that there will be any undue preference given to one centre over another.

6521. Did you contemplate having representatives of the Government on the local boards as well as on the central board?—Yes, I think so.

6522. I am not quite clear what position this bank would hold *vis-à-vis* of the exchange banks. Would it do general exchange business?—My idea would be that it would confine itself to doing exchange business for the exchange banks, buying and selling on London or on India practically for the exchange banks, re-discounting exchange bank bills in India, and selling on India in London to the exchange banks only. I realise that the exchange banks have done very good work in India, and that it would not be right in any way to hamper them in their legitimate business. They have got vested interests which should be respected.

6523. Would you propose that the bank should have power to borrow in London?—Undoubtedly.

6524. I presume that would be objected to by the exchange banks?—I do not think that the exchange banks would object to our borrowing in London providing that there were safeguards with regard to exchange business. Their objections previously have always been that they thought it was the thin end of the wedge of getting into exchange business; they are frightened that we would borrow in London, and then

in order to remit the money we have borrowed in London, go out into the market against them and buy bills in London on India, and *vice versa*, that to pay off the loan we should buy bills in India against them, and remit to London to pay off, and that we should keep the ball rolling, and that we should borrow a great deal more than we wanted in order to enable us to carry out the operation.

6525. Your remedy for that is that you should buy or sell only through the exchange banks?—Only through the exchange banks. It really comes to this, that we are simply doing what Government are doing with regard to Council bills now and selling on London. The only addition to that that would be probable would be the possibility of re-discounting the sterling bills for the exchange banks in India at a time when discount rates were high in London and money was particularly cheap in India.

6526. If such a bank were established would you propose that the Government of India should issue fresh rupees when asked by them?—I should think that the Government of India would be guided largely by the advice of the central bank as to when it was necessary to coin fresh rupees.

6527. One further question, and I think I have done. Supposing that it were decided that there should be no such central bank, do you desire to recommend any alteration in the conditions which now govern the Presidency banks?—I think that the whole Bank Act should be amended, and especially that the banks should have access to London for borrowing purposes.

6528. That is what I had in mind; you think that they should be enabled to borrow in London?—Yes.

6529. But not to deal in exchange?—But not to deal in exchange; I would exclude dealing in exchange. They should borrow in London and remit through Council bills, and when they have to pay back the money they must remit through the exchange banks or by Government drafts.

6530. (Sir Robert Chalmers.) In your experience is there any movement among the Presidency banks themselves towards amalgamation?—I cannot say that there has been a movement among them. I have personally discussed the matter with the Bank of Bengal, but it was at very short notice; it was only when this Commission was appointed and I was asked to attend as a witness, that I went up to Calcutta just for a short time.

6531. You are not aware of any movement among the Presidency banks?—No.

6532. There is nothing in the way of their own interest as trading concerns which has promoted such a movement so far as you know up to the present time?—Up to the present time there has been no movement.

6533. Outside the Presidency banks themselves is there in your observation any organic movement among the public to impel a union or confederation?—No, there has been nothing of the kind so far as I know.

6534. So that it is not a popular movement either in or outside the Presidency banks?—Not that I am aware of. I have put the thing forward because in my opinion it is a very desirable move and a step in the right direction, and it would help on India generally.

6535. Assuming that there were a State bank on the lines which you have indicated to the Commission, your position is that the responsibility should to a very large extent be left with the Government; they would be directors of the central institution and on the local boards, and should have a power of veto I think you said in practice?—In practice they would.

6536. And they would be so far the biggest customer that they would be able to bring very great pressure to bear?—They would be able to bring very great pressure to bear, yes.

6537. Leading possibly if they pressed it far enough, to the upheaval and destruction of the institution?—Yes, but that is unthinkable, as they are so much interested themselves.

6538. So far as the responsibility is ultimately left with the Government, would the advantage from a State bank mainly be to the public through the bank

* See Qu. 3966 *supra*.

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[Continued.]

in the way of getting money available more readily for trading requirements?—I think so.

6539. That is really the bedrock of your proposition?—Yes.

6540. You want to get money available when trade wants it?—I want to get money for trade purposes, and the general development of the country, railways, and so forth—to economise the use of money.

6541. Would not this advantage tend to be secured in another way, that is by lending out balances, or say a part of the fiduciary portion of the Paper Currency Reserve?—That would be a step in the right direction, but I do not think it would have the same effect.

6542. Why should it not have the same effect? Suppose that under your State bank plan you get x crores of rupees available, if you got x crores of rupees available from the fiduciary portion of the Paper Currency Reserve, would not that be the same?—Unless the bank had the direct management it would mean long correspondence before the money was made available for trade, and the time would be past when it was required.

6543. You think there would be difficulties owing to creaking machinery?—There would be difficulties in the machinery.

6544. And it would come to this, that if the machinery was so oiled as to make the balances available, that would tend to meet your main object in connection with the State bank?—Quite so.

6545. May I ask you a question or two about exchange. You say when exchange weakens and you cannot sell telegraphic transfers and Council bills at 1s. 4½d. and 1s. 4d. respectively, they should cease to be offered. That is the essential portion of your scheme so far as exchange is concerned?—To my mind it would strengthen exchange very much if that were done. When they are unsaleable at those rates it shows distinctly that there is no demand. It is easier to keep exchange up than to bring it up again when once it has dropped. The best way is to keep it steady.

6546. You are not prepared to work exclusively therefore between gold import and gold export point?—No, I think that it is preferable to keep within narrower limits.

6547. Are there any other countries which you can point to where exchange is not allowed to find its own level by the equation of supply and demand?—No, I do not think there is any other country.

6548. Take France for instance. Let us assume that their specie points are 25 f. 11 c. and 25 f. 33 c.?—Yes.

6549. They sell between those points; but you would make a difference in the case of India?—I would make a difference in the case of India.

6550. You would stand out for a top price; you would not drop to the specie limit below?—No.

6551. Suppose that theory of exchange were carried out in other countries, what would happen; it would tend, would it not, to stop exchange operation through banks. If a buyer stands out for the lowest price, and the seller for the highest price, you do not get any business done?—Yes, but through my scheme you are simply financing the bank, you are not financing the general public.

6552. It has relation to the bank?—It has relation to the exchange banks only. The specie point between London and India is a much larger difference than that between London and France. There is plenty of room for the banks making their profits although you reduce the limits.

6553. But that difference in amount does not affect the question of principle, does it? You are proposing to ignore at least one of the specie points, and to say that you will stand out for a top price. What I am asking you about is this. I would like to learn your reasons for departing from the practice which, I understand you agree, is the general practice of equating supply and demand?—In my opinion the closer you can bring the specie points the better.

6554. Can you bring that closer?—No, you cannot bring the specie points closer, but by such an operation as this you make the transfer of funds from one market

to the other as cheap as possible. There is less risk in transferring funds freely from one centre to the other.

6555. Would your system be cheaper than any other? Would not your system involve the shipment of gold to and fro more?—No, practically there would be no gold shipment at all.

6556. You think that, do you?—I do. It is with the object of saving gold from being shipped from here that I sell on India below specie point.

6557. That is your view. You would not be prepared then to accept the doctrine that it would be the business of the Secretary of State to get his money across if and when it is available according to the terms of the day?—I think it is advisable that the rate should be such as will save gold from being withdrawn from London. My real object in keeping the rate below the specie point is to avoid the shipment of gold from London, because the withdrawal of gold from London reacts on the India export trade.

6558. But you feel that your system is a more artificial one than the one usually in force?—Yes.

6559. (*Sir Ernest Cable.*) In talking about Government loans, you said that you thought that not much more money could be borrowed in India by Government than is now being borrowed?—I did.

6560. You mean of course on the present terms and conditions?—On the present terms and conditions.

6561. If the rate of interest were raised on a fixed term loan could not a great deal more be borrowed?—It is possible that larger loans could be floated if better terms were offered, but it would have the effect of depreciating the present securities.

6562. You said just now with reference to a central bank that there was no popular movement in favour of a central bank in India; but in your experience of India do you find popular movements frequent and insistent, or are they somewhat rare and weak?—I think they are rare.

6563. They are rare and weak, and so one has to move ahead of them?—Yes.

6564. You said with regard to that simple operation of placing Government money at the disposal of the banks during the winter season, that there would be some delay, and, in Sir Robert Chalmers' phrase, that there would be creaking in the machinery. It is one simple operation, but throughout the whole of your memorandum (Appendix XXIV., page 591), if you will glance through it from that point of view, I notice that you recommend most intricate banking operations should be performed in order to carry out your exchange policy and your lending policy and so on—banking operations which perhaps the Government could not carry out so well as a central bank. Is that your view?—That is my view. The central bank would carry them out more expeditiously, and would be in a position to know the pulse of the market, and to know what was required to meet the needs more quickly than a government possibly could do.

6565. It has been said by some people on the subject of a central bank that the area over which this bank would extend its operations is too large to secure efficient management. Have you any views about that?—I do not think that that difficulty is insuperable. If we take the present sphere of the Bank of Bengal, it probably covers more than three-fourths of the area, leaving the other to the Bank of Madras and the Bank of Bombay; and with local boards I see no insuperable difficulty.

6566. So you think that the amalgamated bank would simply proceed to extend those spheres of influence already marked out?—Yes.

6567. Without much change?—Without much change.

6568. You mentioned that Calcutta should be the head office. Have you any reasons to give for that?—Calcutta is the head office of the largest of the three banks; the capital of the Bank of Bengal is more than the combined capital of the other two banks, and I think that naturally on such an amalgamation the Bank of Bengal would be entitled to consider Calcutta as the head office.

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6569. Geographically there might be some difficulty?—Geographically Calcutta is more or less equidistant. If you take the distance from Calcutta to Delhi, Calcutta to Bombay, Calcutta to Madras, or Calcutta to Rangoon, it is more or less central.

6570. But if there were certain local jealousies which would militate against the immediate formation of this bank with a Calcutta head office, you would have no objection to having another centre for the head office?—No; if it was a case of elsewhere to save wrecking the scheme. I would raise no objection if it were Madras.

6571. The financial scheme which you suggested seemed to me to be open to the objection that we have had put before us by other witnesses of involving a very large capital, and if the Government were to come in as shareholders at the beginning, it would be necessary, I suppose, to capitalise the undertaking at the market price of the shares?—The new capital would have to be capitalised, of course.

6572. At the market price?—Yes.

6573. I might, perhaps, suggest an alternative scheme which is free from the objection of starting with a very large capital. Would it not be easy to make the ratio between capital and reserve the same in each of the Presidency banks? This is already more or less the case now, is it not?—They are more or less now. The reserve of the Bank of Bombay is slightly in excess of their capital; in Madras it is very close, and so is the Bank of Bengal.

6574. It could be done with more or less difficulty?—There would be very little difficulty in doing it.

6575. If they were brought up to the same ratio, then the shareholders of the central bank might receive share for share of their present holdings in the existing banks. That would be quite a fair distribution?—Yes.

6576. Then with regard to the new capital which, of course, is required, would you see any objection to this, namely, that the new capital—let us call it three crores of rupees for the sake of argument—should be offered to the existing shareholders *pro rata*, and that only 20 per cent. of the new capital should be called up?—I see no objection to that proposal.

6577. That would create a very large reserve of uncalled capital, and would perhaps justify the Government in having the greatest confidence in the new bank?—I would suggest three crores with 25 per cent. paid up.

6578. Let us say 20 per cent. This would give you all the capital you wanted, and you would also have a large amount of uncalled capital, which would, I think, help to induce the Government to hand over the whole of the balances?—I would have no objection to that. I have not set my heart on any special scheme at all; I am quite open to any suggestion.

6579. Do you think that this new central bank would have the effect of drawing out any money from the hoards?—In so far as it would increase the number of branches, it would probably bring out a small amount, but not very much.

6580. There are hoards of two classes in India, are there not; there are hoards by the princes and maharajahs?—Yes.

6581. Would not those be extracted?—Yes, I think probably we could get hold of more of those. Even now we have a fair amount.

6582. (Chairman.) Why would the central bank get more of those than your existing Presidency banks do?—Because I think there would be more confidence. It would be recognised as being a very much bigger bank, and perhaps as being a Government institution.

6583. (Sir Robert Chalmers.) That is so—because it would be a Government institution?—Yes, I think so, with the Government prestige.

6584. The Government prestige and Government responsibility?—It might be considered that there was Government responsibility.

6585. Given Government responsibility, that would tend to the purpose that Sir Ernest Cable has in view?—Even now the Presidency banks have more or less

that prestige. They are considered as Government banks.

6586. Then what is the added prestige if there is that feeling already about the Presidency banks?—As I say, to a certain extent, not among the less enlightened portion of the people—if you take the native states and native rajahs, they understand more clearly the true position.

6587. You put it practically on the direct responsibility of the Government being superadded?—Yes, and the stronger institution.

6588. (Sir Ernest Cable.) Do you think this new State bank should as one of its usual functions lend out these balances to agriculturists, or I should say rather to co-operative credit societies?—I think it could within certain limits. Even now we in Madras indirectly finance, to a small extent, these co-operative societies. They have a central bank in Madras, and we discount their bills. The bills of the rural bank to the central bank we discount to a small extent.

6589. (Mr. Keynes.) I want to ask you a little more in detail about your proposal for making 1s. 4d. the lower limit for Council bills. In my own mind I am very doubtful which way the argument lies. I see that there are manifest advantages in reducing the fluctuations, because, as you said, it makes it much easier to transfer capital; but I want to put to you the argument on the other side and to know what you think of it. When exchange is weakening it is very important for the Secretary of State that people should not remit funds from India to England unless they absolutely have to do so. He wants the banks to bring back as little money as possible. If exchange is allowed to fall, within limits, that makes it less profitable for the banks and other persons to bring money home, and, therefore, reduces the amount which he need keep in reserve. I will put it in this way. If you were to fix exchange absolutely so that he would sell bills either way at 1s. 4d., then enormous sums would be remitted backwards and forwards at the end of the busy season and at the beginning of the busy season?—Yes, probably.

6590. The Secretary of State would have to keep very much larger reserves than he does in order to be sure of being able to make remittances both ways at 1s. 4d. to whatever extent was required. Each one-sixteenth fluctuation leads to a few persons who would otherwise remit not doing so, and a difference, for example, of one-thirty-second in exchange is as much a protection as an alteration in the bank rate of $1\frac{1}{2}$ per cent. on three months' bills and 3 per cent. on six weeks' bills?—Yes.

6591. All that being so, do you think that the Secretary of State would be much increasing his liabilities if he were to follow the policy which you have suggested?—I think not, because, assuming that he buys and sells at the same rate of 1s. 4d., it would not affect the balance of trade. It would simply be this, that temporarily, if rates were suitable in India, and there were higher rates of interest, a large amount of money—capital—might be remitted from London which would give you gold here to start with and would then be brought back again. On the balance it makes no difference, whereas on allowing exchange to drop you will have a rush for remittances to get the money home for fear it will drop further. There may be a large number of sterling bills that are falling due very shortly, therefore they will be paid at once rather than run the risk of letting them run for another fortnight and then having to pay a lower rate of exchange, which costs them more.

6592. Let us take the case where it is fixed at 1s. 4d. both ways. I think it is evident that in the long run it would turn on the balance of trade, but within the limits of a given year would not the Secretary of State have not only the ordinary fluctuations in the balance of trade but also superimposed fluctuations due to the fact that money would be sent to India for part of the year and then taken back to England for another part?—Temporarily, when money was very easy in India, it might make big inroads

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and uncomfortable inroads on the gold portion of the currency.

6593. Quite apart from the balance of trade, persons in India might wish to bring back to England for three months, say, 10 million pounds?—Yes.

6594. I mean quite apart from the balance of trade?—Yes; you mean if money was very easy in India and could be profitably employed here?

6595. Yes, so that the Secretary of State would have to meet not only fluctuations in the balance of trade, but also any desire there might be on the part of people to remit money to England because temporarily it could be used here more profitably?—Yes.

6596. Every one-sixteenth fluctuation he permits must reduce that risk?—Yes, that is so. I do not think there is any great danger by reducing the difference. It is possible; that I admit. In theory you are quite correct.

6597. I come back to the actual figures, and suggest that it might be more serious. Suppose that as at the present moment the rate is 1s. 3½d., when an exchange bank or any other person is wondering whether it is worth while to remit funds back to England for a bit, which they will have to take out again in the busy season, one of the important things they must take into account is the loss on exchange?—That is so.

6598. A rather small loss on exchange corresponds to a rather large fluctuation in the bank rate?—Yes.

6599. Hence even a difference of one-sixteenth might make them remit back temporarily very much more than they do at present?

6600. (Chairman.) What do you say to that?—I am not quite certain of the point. The exchange banks, as a matter of fact, always cover their operations in practice. They do not keep a large amount outstanding either one way or the other.

6601. (Mr. Keynes.) To make 8 per cent. in India for six weeks and to remit back at a loss of one-sixteenth of a penny to the rupee is the same thing as to make 5 per cent. in London for six weeks?—Yes.

6602. Therefore the inducement to remit which is brought about by a fluctuation of one-sixteenth of a penny in exchange is the same as an inducement brought about by a fluctuation of 3 per cent. in the bank rate for six weeks' loans?—Yes, that is so.

6603. You will agree that that is a consideration of which the Secretary of State has to take account?—Yes, I agree.

6604. I am not putting this as conclusive?—I admit that, but my contention is that the usual and more common operation would be to remit the capital from London to India in the first instance, and that the return of capital from India, where the reserve would necessarily be strengthened, would be uncommon. It would simply bring the same funds back again.

6605. There is a certain amount of money which is kept in India all the year round?—Yes.

6606. What I am suggesting is that there will be a much greater tendency to bring that back in the slack season?—Yes, there might be. The money that they kept in India during the slack season is largely Indian money, Indian deposits, and it might be to their advantage, if you lessened the difference, to bring it home temporarily.

6607. I think it quite clear that the Secretary of State could not safely fix it both ways at 1s. 4d.?—No, quite so.

6608. It is simply a question at what point he sufficiently safeguards himself?—Yes.

6609. I want your opinion upon that. Do you think he has sufficiently safeguarded himself if he allows a fluctuation between 1s. 4d. and 1s. 4½d.?—I think that is fair.

6610. You think that the present fluctuation is more than he really requires?—Yes.

6611. You have expressed the opinion, I think, that Government loans to the extent of three or four crores in the busy season would ease the situation. Other witnesses have put the figure even so low as two or three crores. In making that estimate, are you assuming that all the funds now available would still be available?—Yes, I am assuming that.

6612. That it would be the net addition?—Yes.

6613. If it had the effect of reducing the bank rate from 8 per cent. to 6 per cent., do you think all the funds now available would be forthcoming?—I think so; I do not think it would affect that. My idea is that the deposits would not fall off because the rate had gone down.

6614. That is one point. I was not so much thinking of that as of the transactions between London and India?—I do not think that those would be affected materially either.

6615. When an exchange bank is buying Council bills in order to obtain funds in India with which to discount sterling bills, I suppose they are much influenced by the rate at which they can discount them?—Yes, the London rate, not the Indian rate.

6616. But that must be connected with the Indian rate, because the rate of discount of sterling bills in India would not be altogether independent of the rate payable for other loans?—So far as I know the exchange banks base their rate entirely on the London rate, plus the rate at which they can buy their Councils. It is not influenced much by the local rate.

6617. I mean the rate at which people can borrow money by discounting their sterling bills cannot be altogether independent of the rate at which they pay for other kinds of accommodation?—I think it is. So far as I am aware the exchange banks base their rates entirely on the London rate for their sterling bills.

6618. It does not make the smallest difference to the exchange banks in any of their transactions whether the bank rate in India is 6 or 8 per cent. then?—It makes a difference in their local business, but not in their exchange business.

6619. Are those two in absolutely watertight compartments?—They are more or less.

6620. You say the exchange banks are not influenced in the least in bringing out money by the fact that there is an 8 per cent. bank rate in India?—I do not think so. Their local business is largely worked upon their local resources, and their exchange business upon the basis of the London rate. But I do not pretend to speak authoritatively upon this because I am not an exchange banker.

6621. I want your opinion on that point. You think that with a bank rate of 6 per cent. the amount of money that is forthcoming would be practically the same as at 8 per cent.?—I think so. I do not think it would affect the amount of money that the exchange banks would bring out.

6622. I come to the other side. Do you think that the demands for loans at 6 per cent. are not much greater than at 8 per cent.?—Yes, I think so, decidedly.

6623. You think the excess is only about three or four crores?—I think three or four crores, as I said before, would ease the market very considerably. It would be a very great help. I would not like to state definitely that no more could be utilised.

6624. Let us go a little more deeply into the causes of a high bank rate in India. You think that a bank rate of 8 per cent. rather than 6 per cent. is simply caused by there being three or four crores less loanable capital than there actually is?—I think three or four crores would reduce the rate from 8 to 6.

6625. (Chairman.) Three or four crores more?—Yes.

6626. (Mr. Keynes.) I do not want to press all this unduly, but let me put it to you in another way. I should have said that the bank rate in India was fixed in this way; you must either leave your money idle during the slack season, earning at best a very low percentage, or you must remit it back to England. In the first place, what you must consider is the average rate of interest throughout the year, and there is no evidence that that is higher in India than in other countries; or you must remit back and then you must make the loss on exchange which we have been talking about?—Yes.

6627. Must not the 8 per cent. rate in a busy season exist in order to counteract either the low rate in the slack season or else the loss of exchange?—I see your point, but in my view, I think cheaper money in the height of the season would enable India to finance her trade for longer periods.

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6628. My suggestion is that a high bank rate is due to much deeper causes than to there being three or four crores more or less of loanable capital in the country, and therefore it is unlikely that it will be lowered by there being three or four crores more available. I mean that is a very small amount, as you will agree, in comparison with the extra sums which have become available in the last 10 years?—That is so.

6629. Each year you get an immense addition?—Yes.

6630. But still you find your bank rate going to 7 or 8 per cent.?—Yes, it goes to 7 or 8 per cent., but that is largely due to the withdrawal of currency at the time when it is mostly required. There is always a big contraction of currency from January to March, just at the time when an expansion is necessary for the financing of trade.

6631. Do you think that the withdrawal of which you speak is of the same magnitude as the relief which you would get by three or four crores more?—Yes.

6632. You do really think that this high bank rate is due to this somewhat casual circumstance rather than to deeper underlying causes?—I think so. It appears to me to be so.

6633. I want to come on now to the general question of a State bank. Can you tell me a little about the relation of the other banks to the Presidency banks? Do you keep an important amount of deposits belonging to exchange banks?—Exchange banks keep their local working balance with Presidency banks.

6634. But is it important?—No, not very important. It is always what Presidency banks look on as a very dangerous balance; you never know what it will be. One day they will have a big balance and the next day they will have nothing. Occasionally they borrow.

6635. In the case of the new Indian joint stock banks, do they keep much with you?—There is only one very small one in Madras, and they keep nothing.

6636. Have you any knowledge of these Indian joint stock banks?—No personal knowledge. Bombay is the centre for that.

6637. You suggest that in the event of the currency notes being taken over by the State bank some part of the fiduciary issue must consist of sterling bills. Do you deliberately intend to exclude hundis?—No. I simply mention that as a particular form of security which I thought was a very good one for temporary security for a note issue.

6638. You think that the best class of local Indian bills would be quite suitable for the purpose?—I think it would be quite suitable.

6639. If, as you suggested, it was part of the general banking business to discount against the note issue, of course Indian bills would form a large part of it?—Yes, such a bank would have the power of discounting to the larger local banks, and their bills would go into the funds. It would be the best security available. In fact it would be the general assets of the bank, similar to the Bank of France, where there are no particular assets earmarked for the note issue.

6640. You argue that the paper currency would be much encouraged if there were currency agencies all over India. I suppose that in the event of there being a State bank the branches of the State bank would be those currency agencies?—Yes.

6641. That would be a much more economical way of managing them than to have separate agencies?—Yes.

6642. That is very much part and parcel of the State bank scheme?—Yes, but it would be quite possible for the Government, even without a State bank, to have currency agencies. Where they have got large treasury centres they can have currency agencies.

6643. You are proposing an arrangement almost exactly like that of the Reichsbank, which has agencies all over Germany, which are instructed to cash notes wherever they can, but are not under a legal liability to do so?—Yes, that is what I mean—as a matter of practice always to encash them, but not to have the legal liability.

6644. We have been told that there is not at present very much economy in setting up branches of the Presidency banks in place of treasuries. Is that to any extent due to the fact that the currency chest still remains outside the province of the bank in those places?—No, the currency chest is held by the bank, but the funds in the currency chest, of course, are not available; they are a special reserve for the note issue. What happens is this: revenue is drawn in during the week, and goes to the credit of the Government account. On a certain day in the week the whole balance, that is everything except a small working balance, which varies from 75,000 rupees to a lakh or two according to the size of the Treasury, is transferred into the currency chest. The bank then simply becomes a collecting agent for Government, and once a week the surplus is transferred to the currency chest, and that becomes the security for the note issue.

6645. When the Government reduce their three lakhs to one lakh, does that mean that they have absolutely no more than one lakh in the place, or that they have transferred the two lakhs into the currency chest?—It means that they have transferred it into the currency chest. They might have 50 or 60 lakhs in the currency chest.

6646. So that the rupees are still in that place?—They are still in that place.

6647. What the Government does is to take them out of the control of the bank?—Yes.

6648. What advantage to the Government is that?—As far as I know it is no advantage at all. They hold large notes in the reserve treasuries against them. Of course, in the height of the season their reserve treasury is what they look to to meet their large sales of Council bills. It provides for the sale of Council bills some considerable time before they are actually sold, by the withdrawal of cash in actual circulation.

6649. (Mr. Gillan.) In fact it is the Government method of holding their balances?—Yes.

6650. (Mr. Keynes.) I do not quite understand whether when they transfer the two lakhs to the local currency chest they keep it in there in rupees or only in notes?—It might be rupees and it might be in notes. In the chest you will have a large balance of notes and a large balance in rupees. The notes, as soon as they are put in there, I presume, are taken off the note circulation, and the rupees then form a portion of the reserve.

6651. There are a great many rupees there which the Government can use for replenishing its balances, but which the bank cannot use?—Yes, which the bank cannot use.

6652. So that the lack of economy in the present system merely results from the separation between the banking and the note issue part?—Yes, it results from the separation.

6653. If they were combined the Government would have no motive whatever for reducing the three lakhs to one lakh?—They would have no motive, that is so; provided also that their treasury balances were with the bank. Their reserve balances are kept with the Accountants General.

6654. Of course, when the reserve treasury balances were falling very low they might have to withdraw rupees, but except in that case it would be no inconvenience to them?—No, it would be no inconvenience. It is a matter of having sufficient confidence, in leaving large balances with the banks, that the money will be forthcoming at a time when Government require it. I think that is really the sole explanation.

6655. Except in cases when the balances in the reserve treasuries are running low this practice of the Government, which makes it unprofitable for the bank to have branches, is of no advantage to them whatever?—No, it is no advantage.

6656. I think I understand clearly the great advantages which, as you maintain, would accrue from the existence of a State bank, but I would like to question you as to how far you think those advantages might possibly be obtained without a State bank. First of all, with regard to the paper currency, I understand that you think that the bank could use methods of popularising it which absolutely could not be open to the Govern-

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ment?—I think that they would have means. I would not go so far as to say that the Government could not do the same if they would, but it would be more difficult for them than it would for the bank. We have direct dealings with the trading public and the Government have not, and we can induce our constituents to take notes by offering them more favourable rates than they could obtain by taking silver, which would cost us a lot of money to transfer.

6657. You suggested that against the paper currency a certain amount could be held in the form of bills?—Yes.

6658. Do you think that if there were no State bank the Government could possibly enter into the business of buying bills?—No, I should think it probably could not.

6659. So that part of your proposal is really contingent upon the State bank being established?—Yes, that is so.

6660. Would it be possible for the Government to lend to Presidency banks against the security of bills?—They might do it in that way.

6661. But you think that the use of the balances for discounting bills is essentially a banking operation?—I think it is. It could be carried out better by the bank, and more promptly.

6662. Then there is the point about the Government balances, which for various reasons which have been explained to us, are very big in India. Do you think that Government could possibly lend anything like all those balances to the existing Presidency banks?—No, I do not think they could use them—not the balances that they have at present of something like 20 crores. I do not think that would be a business proposition at present under present circumstances.

6663. So that your proposal for putting Government money at the disposal of trade is contingent on the establishment of a State bank?—Yes—the whole of their balances.

6664. There might be some increase even in the absence of a State bank?—I think under existing conditions very much more of the balance could be put at the disposal of the Presidency banks temporarily during the busy season.

6665. About how much more, do you think?—Of course, it would depend upon the season. It seems to me they could meet the requirements of the Presidency banks out of their funds which are doing nothing.

6666. Could they, do you think, lend enough of their balances to the Presidency banks really to meet your criticism, or could they only lend enough to meet your criticism if there were a State bank established?—I think that under existing circumstances they could lend us enough.

6667. So that that part of your proposal is not absolutely contingent on the establishment of a State bank?—It is not absolutely contingent on that.

6668. It would be more efficient though if there were one?—It would be more efficient if there were one.

6669. I come back to another point about which I think you have not said anything, or, at any rate, have not said much, in your memorandum, and that is the banking resources of the country. Do you think that there will be any substantial advantage in having the banking resources amalgamated, from the point of view of security?—Do you mean of the three Presidency banks?

6670. Yes, having their cash resources amalgamated?—It certainly would strengthen the position to a certain extent, in so far as the demand varies in point of time. In Bengal the demand arises earlier than it does in Madras. Our season continues longer. Therefore the amalgamation of banks in that way would strengthen the position. Do you mean whether it would make a stronger bank?

6671. I was thinking rather of the case of a crisis?—Yes, I think decidedly in the case of a crisis, if there were an amalgamation of the three banks the credit of the three banks would be stronger than the credit of an individual bank. A bank such as I have outlined would be able to command credit in London.

6672. Do you think that the present position is so safe that these are rather minor considerations, or do you think that the present position is not as good as it might be in the matter of meeting a crisis?—I think there are dangers about the present position.

6673. You would not feel perfectly happy in a severe banking crisis in India?—Certainly most unhappy. Unfortunately I went through a very serious crisis in Madras, and there was no outlet, absolutely none. I refer to the failure of Arbuthnot & Co.

6674. What do you mean by no outlet?—There was no outlet for obtaining resources. We were tied up in the Presidency practically. We have no recourse to London, and no possibility of raising money elsewhere; we depend upon our own cash balance.

6675. Could you not even draft in money from Bengal?—If Bengal happened to be easy at the time you could borrow money up to a certain point, but then you have your Bank Act, which comes in and provides that you can only borrow against certain securities. The Bank Act precludes a Presidency bank from lending to another Presidency bank without specified security.

6676. I think in answer to a question earlier to-day you discriminated between the effects of the sale of Council bills and of lending money in India in this way, that if Government released funds by the sale of Council bills that helps shippers rather than producers?—The Council bills are not applied for until the produce has been brought down for shipment.

6677. But if the Government money were available in numerous branches all over the country, you think that would strengthen the financial position of producers as against that of shippers?—I think so; they would be enabled to get financed more cheaply, and would be able to hold their produce if the market were unfavourable.

6678. That is to say, the money market in India is a very imperfect one?—Yes.

6679. Funds which are available to one class of borrower are not at all available to another class?—That is so. The producer has got to pay his kist, that is, the Government revenue, at a certain time, and, in order to pay that, he must either be able to sell his produce or to borrow on it. If the rates are high it practically means that the money is not available to lend, and, therefore, he has to sell; he sells to the exporting merchant, and the exporting merchant sells his bills to the exchange bank, and they obtain Council bills.

6680. I have only one more question to ask. Assuming that no State or central bank is established, you have said you would like an amendment of the Presidency Bank Act, by means of which they could have access to London?—Yes.

6681. Do you also ask for any relaxation in the matter of the rules regulating the terms upon which they can lend in India?—Yes, I should like those altered also.

6682. What sort of alteration would you wish in them?—The terms as to the security upon which one may lend are very stringent. You cannot lend on credit alone. You can discount a bill which has two names, but, as I say, even to the Bank of England I could not lend a lakh of rupees unless they put down certain securities which are specified in the Act. I say that the Bank of Bengal cannot lend to the Bank of Madras any money except if certain securities are put down. They can re-discount bills up to certain small limits, which would be of no use in the matter of helping the Presidency—up to five or six lakhs is about their limit.

6683. (Mr. Gladstone.) In your memorandum you propose that in the event of a central bank being established the head office should be in Calcutta, and you gave as a reason that the Bank of Bengal has the largest capital. It is also the fact that the territory of that bank has also much the largest population, and much the largest trade?—Yes.

6684. Sir Edward Law, in a minute which has been given to the Commission, dated in 1901, referred to the difficulty* of securing a thoroughly suitable board of

* See Appendix XV., pp. 437-8, para. 53.

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[Continued.]

directors, having the necessary leisure to devote to the business of a State bank. Do you agree in that?—I do not think that difficulty is insuperable.

6685. It is the fact, is it not, that the business of Presidency banks is very largely controlled, and necessarily controlled by the managers and deputy managers, because the boards of directors are not men of leisure; they are all occupied with their own business, and are quite unable to give much time to the business of the banks?—That is so.

6686. Probably the managers of the Presidency banks exercise quite as much control as the managers of the exchange banks in India?—I think so, quite.

6687. And the exchange banks have no boards in India?—They have no boards in India.

6688. Do you not think that a much stronger board of directors would be obtainable in London, supposing instead of having the head office in Calcutta you had the head office in London, with the local boards, as you have suggested, in the Presidency towns?—A London board would lack the local knowledge, which is a very great thing.

6689. Could not a board be got together in London consisting of business men with full experience, of good financial position, and the necessary leisure to admit of their giving time as in the case of the Bank of England?—That would be possible, but against the London board I would suggest that the Indian board's interests would be more for the benefit of India than those of the London board. They would look to India's interest, more than the London board are likely to do.

6690. Failing a satisfactory directorate in India, would you agree to a London board?—I have made my objections, although as I say I am not wedded to any particular scheme, but just the principle.

6691. But you have experience of your directorate and as I was a director myself I feel able to put the question? I think it is generally agreed that the directors of Presidency banks really have not got the time?—They cannot devote their whole time to the business of the bank and they cannot possibly have a thorough grip of the details.

6692. It would be almost impossible to get a satisfactory directorate of a large central bank so far as unofficial members are concerned in India?—I do not think you could get anything better in London. I do not think a board constituted in London could possibly have any better knowledge, or be able to control the real business of the bank, although they devoted their whole time to it. They would lack the local knowledge, which is a most important thing.

6693. I suggest that the central bank if established in London should be directed in the main by men of Indian experience?—Yes.

6694. It is a fact, is it not, that the bulk of the successful merchants return to England somewhere about forty?—Yes.

6695. In the prime of life?—Yes, but they very quickly lose touch; conditions change so rapidly in India.

6696. Many of them are in their own businesses as well in England?—Yes.

6697. They do not lose touch with India?—No, not to such an extent.

6698. Do you think that such an arrangement would meet with general approval in India supposing it was agreed that a satisfactory directorate could not be obtained in India?—I do not think it would be popular from an Indian point of view.

The witness withdrew.

At the India Office, Whitehall, S.W.

FIFTEENTH DAY.

Friday, 18th July, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

LORD FABER.
LORD KILBRACKEN, G.C.B.
SIR ROBERT CHALMERS, K.C.B.
SIR ERNEST CABLE.
SIR SHAPURJI BURJORJI BROACHA.

SIR JAMES BEGBIE.
MR. ROBERT WOODBURN GILLAN, C.S.I.
MR. HENRY NEVILLE GLADSTONE.
MR. JOHN MAYNARD KEYNES.
MR. BASIL P. BLACKETT (*Secretary*).

Mr. WILLIAM BERNARD HUNTER recalled and further examined.

6699. (*Sir Shapurji Broacha*.) You do not find any fault in the selling of Council Bills by the Secretary of State, do you?—No, I have found no fault with the sale, but I consider that it is advisable to sell below the gold point; that is the only thing—and I would not go below 1s. 4d.

6700. With the manner of his doing it you do not find any fault?—No, I have no fault to find.

6701. Nor do you find any fault with the lending of money in this country?—No, I have found no fault with that.

6702. Nor do you complain of the rapidity of the increase of the note circulation, which has increased about 400 per cent. since 1890?—I advocate an increase of the circulation of currency notes, as far as possible.

6703. Up to now there has been a rapid increase. There has been an increase of 400 per cent. since 1890,

of 100 per cent. since 1903, and of 50 per cent. since 1905. You say that the chief cause of the great fluctuation is the inelasticity of the currency, accentuated by the withdrawal from the active currency by Government of vast sums just at the season of the year when the movement of the crops demands an increase; and that in this season, with an 8 per cent. bank rate ruling in three presidencies, no less than 20 crores, or 13½ millions, were so withheld from the market. Indian currency notes are issued on the same lines as notes of the Bank of England, are they not?—That is so.

6704. Against fiduciary security?—It is a fixed fiduciary issue.

6705. Suppose the Government of India had thrown into the market this year about 5 crores to lend in the busy season, I do not think you would have seen

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[Continued]

8 per cent., would you?—You would not have seen 8 per cent.

6706. That is the only reason, I think, which you gave for a State Bank, so far as I could follow it. If the seasonal demand for money, and the seasonal ruling of a high bank rate is the only cause, then, of course, we ought to ask Government to lend money out like other countries?—If that were done it would relieve the situation, but it would not meet everything.

6707. Why have a great superstructure for such a small point as the reduction of the bank rate during the busy season—a bank rate that rules for five months, I think?—As a rule.

6708. Do you know that before 1867 there were three State Banks in miniature?—How do you mean?

6709. The Government had shares in three banks?—Yes, the Government had shares in banks.

6710. And the Government had directors on the board?—Yes, that was so.

6711. The old Bank of Bombay had two millions of capital, but it was put into liquidation?—That is so.

6712. And although the distribution to the Bank of Bombay shareholders came to 117 rupees only, the Bank of Bengal offered the shareholders 500 rupees to induce them to amalgamate with the Bank of Bengal, and an amalgamation resolution was carried?—That is so.

6713. But the Bombay mercantile people created a great opposition to that, and would not have an amalgamation, and they carried deputation after deputation to the Bombay Government; is that not so?—I am afraid that I am not up in this ancient history.

6714. I am taking you into the history of the State Bank. You will find that that resolution was rescinded; notwithstanding the fact that the shareholders would have got four times the money they ultimately got, the Bombay people would not have the amalgamation, and they only got 117 rupees, while the Bank of Bengal offered 500 rupees. That was due to provincial jealousy, and, as you know, there is a great provincial jealousy between Bombay and Calcutta?—Yes, I am aware of that.

6715. Do you know that, in consequence of the fact that there were Government directors on the Board, the shareholders petitioned to this country to have their money given back to them by the Government, because they alleged the Government was responsible?—No, I do not know that.

6716. There was a motion brought forward in the House of Commons by Mr. Mill for the restitution of the money on the grounds that Government directors were on the Board, that it was done with their sanction, and that the Government were really responsible to the shareholders. That motion was lost by a very small majority. I suppose you want Government directors on the board of your proposed State Bank?—No, I have not said that I want them. I presume that as Government would have a big stake they would want representation on the board, but I do not think, so far as the Bank is concerned, it would be essential. It is merely a matter for the Government, having such a big stake, to say what control they require.

6717. The Government has been for so many years declining to lend any money for trade; do you think, therefore, they will open up all their treasuries to a State Bank without some sort of guarantee or scrutiny or supervision?—No; I certainly think they would require some scrutiny or supervision, but that might be met by their having their own auditors.

6718. What would the Government directors know about commercial credits?—They would only have a general knowledge of the business which the bank was conducting, and that it was being well managed and undue risks were not being taken.

6719. If a State Bank were established and Government directors were on the Board, then, if anything were to go wrong, would not the Government directors be again held responsible for the losses, just as the Bank of Bombay shareholders tried years ago to make them responsible for losses, and only failed by a narrow majority in the House of Commons?—They would be equally responsible with the other directors, un-

doubtedly; but beyond that they would carry no further responsibility.

6720. When the Government directors come on the board, which representative of the State Department would you like to have on the Board, the Comptroller-General?—Someone from the Finance Department, speaking generally.

6721. When a man in the State service becomes Comptroller-General, he remains only a short period in his office, because he has reached the stage when only something like 5 or 7 years have to elapse before his period of service expires?—That is so; but then the Government directors, assuming they were appointed, would not be there really to take a very active part in the direction of the Bank. They would be there more to watch the interests of the Government.

6722. So it would be a responsibility without control?—Without any detailed control.

6723. How would you form the State Bank—by amalgamation?—By the amalgamation of the three Presidency banks and the issue of fresh capital.

6724. If the Bank of Bengal owns two-thirds of the share capital as compared with the Bank of Bombay and the Bank of Madras, I suppose the directorate selected would be the Bengal directorate?—There would be local boards. But these are details, and I have not prepared a detailed scheme for your consideration.

6725. A State Bank is very nice, and all that, it is a very grand thing, but let us go to the details, and let see how we can reconcile the details in India. The details of such things can be settled in France by herself or in England by herself; but let us see what is required for India. I would like to have from you your idea of the composition of the board of directors? Of course, the board of directors would be appointed by the shareholders, and the Bank of Bengal shareholders having, therefore, the majority could choose directors from among themselves, unless you want to make some provision for Bombay directors, or anything like that?—You would naturally have a provision that the local boards should consist of local men.

6726. I understand about the local boards, but I am talking just now of the Board of the Central Bank?—It would be possible to have a scheme whereby through the local boards the shareholders of the Bank of Bombay and the Bank of Madras are represented on the Central Board.

6727. I suppose any local board would be formed by the direction of the Central Board?—Not necessarily.

6728. Is it not the shareholders' property, unless the Government have a State Bank of their own?—Yes, it is; and the local boards would be drawn solely from representatives of the locality.

6729. I contend that the majority of the shareholders would be Bengal shareholders, that is, if the shareholders are given shares *pro rata* according to the present capital; and, therefore, Bengal or Calcutta will be able to appoint the full board by election?—There is no reason why representatives should not come on the Central Board from the other localities. There may be a provision that one member should come from Bombay, one member from Madras, one member from Rangoon, one member from Cawnpore, and so on, so that all the principal districts could be represented on the Central Board.

6730. Is there a bank or any other institution that has this method of selecting its directors? Is it not quite a new method?—Even assuming there is, no other instance, that is no reason why a precedent should not be created.

6731. You really have to revolutionize the whole company system in order to do it?—It requires a special constitution, undoubtedly.

6732. The shareholders would have no control over it in the selection of their own directors?—Within certain limits they would have control.

6733. You do not tell us how the directorate would be formed, or who will appoint the Committee to work it at Madras, or the committee to work it at Bombay, or the committee to work it at Karachi, or the committee to work it at Lahore. Who would appoint those committees?—As I say, I have not

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worked out a detailed scheme, and I have only suggested the principle that at this stage it is worthy of consideration whether the formation of a Central Bank is not desirable.

6734. We stumble at the very beginning in the formation of the board. How will the Government share in the election of the board?—They will probably have the right to nominate certain of the directors.

6735. To nominate their own directors?—Yes.

6736. That is to say, to nominate their own servants?—Yes, if they decide that they desire to be represented on the directorate. As I say, it is not essential that they should be; it is only on account of the large stake that they would have in the Bank that they might wish to have the control. They might, as I suggest, do so by having their own special audit.

6737. Probably the Government would put the work in the hands of their servants, the Comptroller General, for instance, because if the Government appoint anyone at all it must be someone from the Finance Department, which is the only Department with any experience of banking and bankers?—Probably they would select from people in the Finance Department.

6738. Suppose they waived the appointment of Directors, do you think they would give up all the treasuries to a State Bank over which they would have no control?—I cannot say what the Government will do.

6739. We will suppose that a board is appointed and that the majority, in the common way, until the laws relating to joint stock companies are changed, is composed of Bengalis; then I suppose the directors will appoint a committee at Madras to work that portion of the State Bank?—Presumably there will be a local board in Bombay and a local board in Madras.

6740. Will they have power to lend to people known to them in Bombay without any supervision or central control?—It will be necessary for the local boards to have very large powers, but undoubtedly the Central Board must retain the power of veto.

6741. Do you not think it would be a very awkward thing to veto Bombay credits? Do you think Bombay would submit to that?—I do not see that there is anything very outrageous in the suggestion. If you take the large joint stock banks in England, they have local boards in various centres, and I do not speak with authority, but I presume that those local boards are subject to the veto of the Central Board.

6742. They are subject to central supervision?—Yes.

6743. How many European directors have you on your Bank?—Seven.

6744. And how many native directors?—There are none.

6745. Perhaps you know that the same would be the case in a Central Bank. How many directors are there now who have been on the board for five years, say? Or I will put it in this way: Of the seven European directors that you have had in the Bank of Madras during the last five years, how many have left on furlough or have come back to England and left India altogether?—The Directors are constantly changing.

6746. I suppose the European directors who come on the board are generally the heads of their firms?—Generally they are.

6747. So they come on the board at about the time when they take their furlough every year or every second year?—No, not so often as that, as a general rule. It is usually every third year.

6748. How often do you take your furlough yourself?—Perhaps once in five years.

6749. It is not like the Bank of France and the Bank of England; you do not continue with the same Directors?—That is so. But when I personally take my furlough, my second in command knows the business just as well as I do, and he knows exactly my views. So when the second partner in a firm succeeds his senior partner in the directorate, he has often been on the board before, and he is not coming into something entirely new.

6750. It will come to this, that the Governor, that is, the Secretary and Treasurer of the State Bank, would alone be occupied in dispensing the native credits, unless you employed some great baboo who would dispense those credits?—I do not think we should be quite so out of touch as you suppose. Naturally a board must to a very large extent be influenced by the head of the Executive who has all the details before him.

6751. But really the entire control of the whole of India would be in the hands of the Governor of the Bank?—He would certainly have a large influence, but I would not go so far as to say he would have the entire control. Each bank manager would have very great powers.

6752. The Government's nominee on the Board could not have any control over the credits if the Bank is to support the trade of the country?—Naturally, Government directors could not interfere in such small details as what amount of credit any individual person was to receive. They would have to be guided by the executive officers.

6753. The Governor will be the sole possible judge of the credits given in Bombay, the credits given in Lahore, and the credits given in Madras?—By "Governor" do I understand you to mean the senior executive official?

6754. Yes?—He would undoubtedly have the power of veto as he has now in a smaller concern; but individual branch managers have very large powers with regard to their localities; the man on the spot must have large powers.

6755. Do you not think, looking at all this, that it is not within one man's power to supervise the management of a State bank?—I do not see that there is any very great difference in it from what is done at present. You have got your different spheres of influence; you have got the Bank of Bengal sphere, the Bank of Madras sphere, and the Bank of Bombay sphere; they are at present directed by the local boards, and they would continue to be.

6756. I know there are spheres?—The fear of the central board vetoing in Calcutta any credit proposed to be given in Bombay is very unlikely, unless it was in the interests of the bank. There should be no jealousy between one quarter and another. The business should be carried on for the benefit of the bank as a whole, and if the trade of Bombay requires financing, and it is to the interests of the bank as a whole, Bombay would get the finance.

6757. The State Bank would have the dispensation of proper credits all over India?—I would say so.

6758. And they would be guided by their managers, who may be sent from one place to another just as they are now?—Quite so.

6759. Do you know that even now the bills that are discounted in Bombay are bills of people who are known in Bombay, and the bills that are discounted in Calcutta are bills of people who are known in Calcutta?—I do not follow your question.

6760. Even now, with the centralised Presidency Banks there is a difficulty in dispensing credits up-country in the case of people not known at the bank, as at the bank they have to take their information from European officers and it is a European board that has to act. Perhaps, therefore, the natives do not get the credits they really want, which in the case of a State bank it would be necessary they should have. What, would you say, do the directors know now about Pondicherry or any of those places? Do they give credits there?—Naturally they do.

6761. What supervision can they have over those credits?—Naturally they cannot go into details. They can only direct the general policy.

6762. Did not the Bank of Madras lose large amounts in Ceylon some time ago?—I think it would be very extraordinary if a bank did not lose occasionally.

6763. If all this happens in the comparatively small case of a Presidency Bank, how would it be if you were superintending the vast credits of India through European directors?—If the work is too large for the

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[Continued.]

Central Board the remedy is to create more local boards; but at present the number of branches, if you take the amalgamated Presidency Banks, is quite small.

6764. Turning to another point, do you mean to say that the Government should lose their profits on the circulation, and give up the control of the large sums in the paper currency?—With regard to the profits on the circulation, I naturally suppose that if it is handed over to the proposed bank, the Government would expect to receive remuneration on an average of what their profits had been for the last two or three years.

6765. Do you think that if the Government handed it over to the State Bank, the Currency Department would not have work to do?—So far as the Currency Department is concerned, they would cease entirely. With regard to the Treasuries, in all probability they could reduce their staffs slightly as the Bank took over the work—not entirely, because the head officer of the Treasury has other considerable duties to perform in addition to the actual Treasury work, and probably it would give him more time to attend to those other duties.

6766. There would be no reduction of expenditure, anyhow, in the Government of India's Department because of the State Bank?—There would, so far as the Currency Department is concerned.

6767. Could they dispense with the services of the Comptroller-General, of the accountants in the Presidencies, and of the other superior officers who supervise these banks, because under the proposed arrangement the Central Bank would supervise?—They cannot dispense with the accountants-general, because they have other entirely different duties to perform as well as looking after the Currency and the Reserve Treasuries.

6768. Would there be any economy in the Secretary of State's Department here, because the sale of Council bills is given over to the State Bank?—I should not think the economy is worth considering.

6769. So on the whole a State Bank means that the Government, according to your idea, might put about six millions or four millions into the Bank and make their officers responsible for work which they do not know anything about?—As I have said before, I do not suggest that the Government directors are essential.

6770. In that case, the Government might be bound on a motion in Parliament to provide for the restitution of the shareholders' money. That was attempted to be done, as I have mentioned, through Mr. Mill, but he lost by a narrow majority, otherwise the Government of that day would have had to pay the money?—I do not admit that, because there are Government directors of the Bank, the Government itself would be responsible.

6771. Why have you no native directors to give you some idea of the credits of the men in your Presidency; natives are shareholders?—A large proportion of the shares of the Bank of Madras are held by Europeans, and no native directors have been appointed by the shareholders; in fact, I do not think that there has been—certainly not within my recollection—a native director proposed.

6772. Have these directors a large interest in shares, or are their interests nominal?—As a rule?

6773. Have they 20 or 30 shares only, and is it sometimes said they have got those shares after appointment?—The directors have naturally to hold their qualifying shares; beyond that I do not think I am entitled to say how many shares they hold.

6774. Would you compare a State Bank in India with the Bank of France, the Bank of Germany, the Bank of England, and so on?—I admit that banking in India is not so fully developed. My object is so far as possible to develop India, and I think the time has now come for a step forward.

6775. If you take the governments in civilised countries, the taxes go to the banks and everything appears on the table, and the government are more

indebted to the banks than the banks are trying to get any money from them. For instance, the last account shows that there is 10 millions belonging to the State in the Bank of England, but the State has a debt of 11 millions to the Bank, so there is not much lending there. You want the Government of India to lend to the Bank 25 to 30 crores?—The State here may be indebted to the Bank of England, but on the other hand the Presidency Banks have large holdings of Government paper which, in other words, is a Government debt. I daresay there may be a difference from the legal point of view, and if anything happened to the Bank of England there might be the power of set off which, in the case of the Government paper held in the Presidency Banks, there would not be; but I do not see that that is an insurmountable difficulty, either.

6776. So you see there is no comparison. It is the same with the Bank of Germany and the Bank of France; they have State accounts, and they write them off by indebtedness to the banks. But this State Bank will be quite different, will it not?—In so far as there would not be the power of set off by the present holdings of the banks in Government paper which they hold instead of a specific debt.

6777. Knowing the way the Government of India works, the banks will add about double the money of the Government of India to their own capital?—I am quite aware that the Government of India might raise objections, but as to what their objections will be and how far they can be met it is impossible for me to say. My hope is that they will take a broad view and consider what is beneficial to the country. It will be right to take a certain amount of risk.

6778. Would you also have a branch in London of that Central Bank or State Bank?—I should say that would be an essential part.

6779. What position would that branch occupy?—That branch would be a very important one, and it would be essential that there should be a local board in London.

6780. Would it lend money?—It would both lend and borrow money. It would carry out exchange transactions on behalf of the Government between India and Europe.

6781. A State Bank does not borrow money?—A bank's business is entirely borrowing on the one side, and lending on the other.

6782. The Bank of France does not borrow and the Bank of England does not borrow?—Your deposits are borrowings.

6783. Of course they borrow in a way?—I have a very vivid recollection of the Bank of England in 1891 borrowing three millions from France.

6784. Suppose you borrow in London for six months or a year; if you borrow for six months and then repay, it will cost you 3 per cent. more than the Indian rate, and if you borrow for 12 months it will cost you $1\frac{1}{2}$ per cent. more for the remittances?—Naturally you would not borrow in London if you could borrow in India cheaper.

6785. That would be exchange business on a very large scale?—I do not quite follow the question.

6786. If you borrow in London for India, you would have to remit that money, would you not?—Yes, you would.

6787. And you would have to bring that money back when you repaid it?—Yes.

6788. If you have to get that money back in a crisis, the exchange will go against you?—If a crisis happens and you have suddenly to remit very large sums from India to London—and I assume the crisis is in London, that you have got money out in India and that you want to get it back to London—undoubtedly it might affect exchange. But if the bank is working the exchange business on behalf of the Government, they would have very large accumulations of gold in the currency reserve, which is ear-marked in London, and it would be a very simple operation to increase your silver reserve in India and release the gold in England without any loss on exchange.

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6789. That will to some extent wipe out the exchange banks who are doing that business; and they have a certain sort of claim on the Government of India?—I think in the previous part of my evidence I distinctly stated that the interest of the exchange banks was not to be interfered with, and that any exchange business the central bank did would be restricted to re-discounting the exchange banks' bills and selling on India, or *vice versa*; in other words, it would simply be acting as the agent of Government for the sale of council bills.

6790. It would be doing all that work with the view of profit for its shareholders?—It would not be to the detriment of the shareholders.

6791. But it would be a much larger institution?—It would be a very much larger institution. My chief object is the development of India generally.

6792. If you borrow or sell 25 or 30 millions, do you think that would be such a small operation that it would not wipe out the exchange banks who have now control of that business?—You are putting rather a hypothetical case which I do not admit in practice will ever come about, namely, that the State bank would borrow 25 millions in London.

6793. Would you auction the bills?—No, my suggestion was that they should be sold at a fixed price.

6794. Would that be fair to the exchange banks?—I do not see how that would be interfering with the exchange banks.

6795. If you were to remit your own money to and from India by the auction of the bills, I can understand that the exchange banks might have some chance, but if you are to have the power of appropriating to yourself the Secretary of State's bills, and bid for your own requirements at rates of your own making, the exchange banks would certainly be wiped out?—It would not be interfering with the exchange banks' business.

6796. Will the London branch be under the control of the Bank of Calcutta, or will the London branch be the central office?—My idea is that the head office of the Central Board should be in India, not in England.

6797. Then the branch in England would be subordinate to the Central Bank in India?—It would naturally have very large powers.

6798. Would the Secretary of State have no voice in it?—I presume the Secretary of State would have no actual control, but if the Government desire to be represented on all the boards, there is no reason why there should not be a representative on the London board as well as on the local boards in India.

6799. Is it the idea that a State bank will help industries and agriculture?—Yes.

6800. How can a State bank help agriculture?—Indirectly, by developing credit generally all round.

6801. How will you actively assist agriculture?—Indirectly.

6802. Will you lend to agriculturists?—Yes, I would lend to agriculturists; I do now.

6803. That would mean very small bills, would it not?—They are naturally small bills on the security of their produce. When the harvest season comes on, they bring their produce in and put it in store under the bank's control, and they get an advance on it.

6804. Who will advise you as to the credit of the small agriculturist; who, in the district itself, would know him?—We have means of finding out the position of the agriculturist. There are title deeds and registration offices where you can find if there is any encumbrance. It is done in practice now.

6805. How will it help in increasing the note circulation if it is in the hands of a private bank? Do you know that in India a private bank or a central bank will be treated with suspicion, whereas the Government is not treated with suspicion; and that there is a greater chance of increasing circulation under Government than under a central bank? What experience have you which supports your view that the central bank's note circulation will grow with greater rapidity than a circulation through the Government?—

In my opinion the banks have more opportunities of inducing merchants and others to work by currency notes than Government have. Banks are more in touch with those people, and by having a large number of branches all over the country where these notes would be readily received, they could do a great deal.

6806. Do you think a central bank could induce people to take notes in India?—I think so.

6807. Do you think merchants would take the notes of the bank in preference to Government notes?—I do not go so far as to say that they would prefer the bank's notes to Government notes; but I do not look to any appreciable decrease in the circulation of the notes simply because there has been a transfer from Government to a central bank.

6808. For public works I think you can borrow more money in India now?—Do you mean for Government loans, or railway loans?

6809. For railways and canals?—Undoubtedly, owing to the rising prosperity in India, there is more money available for investment in such securities.

6810. The Government has lent about three or four crores to several municipalities?—Yes, and to port trusts.

6811. But the last loan of three crores has been exhausted, and there is a backwardation of prices?—That is not shown so far as the price is concerned. The last loan, as far as I can remember, went at about 96·2, and the last quotation I saw from Bombay was just about the same rate.

6812. Do you know that they cannot deliver the paper they have sold, and that they have to pay backwardation on it, as it is called?—Of course it might happen under any circumstances that a speculator would be found short.

6813. I think Government could borrow about half of what is required for public works through these Indian loans; what do you say?—I think they might be able to do it in one year. I think they might increase the amount of the loan, provided there was some understanding that in the height of the busy season the balances in the reserve treasury which they were accumulating, would be available for advances. Undoubtedly the banks could carry very much heavier holdings of Government securities and other authorised securities, if there were an outlet such as that, and if there were also further powers of access to London in times of stress.

6814. As you know, you have brought back in the last five or six years rupee paper from England to India?—Yes, that is true.

6815. I think in the last four or five years we have bought rupee paper in London here and taken it to India to the extent of about 14, 15, or 16 crores?—Not quite so much as that. It was about 24 crores, was it not?

6816. It is now about 14 or 13 crores?—At present it is rather less than that. The holding in London is now about 12 crores, and I think some years ago it was as high as 24 crores.

6817. They could not float the same loans here at 86 or 87 now, could they?—I know that to my sorrow.

6818. If they needed money and they raised the interest to 4 per cent., or anything like that, they could have large sums floated in India, could they not?—Undoubtedly, if you raise the rate you ought to be able to float larger loans; but I think it would be hardly fair to the present holders of Government paper to depreciate the present holdings of 3½ per cent., it would only be in very extreme cases that that would be justifiable.

6819. (Sir James Begbie.) You favour the Council Bill system, not only for providing the Secretary of State with funds, but also to meet the requirements of trade?—Yes.

6820. The trade you refer to is, I fancy, the foreign trade?—Yes.

6821. But the foreign trade is only a part of the internal trade, is it not?—The foreign trade is only a part of the total trade.

6822. The Council Bill system involves the holding up in India of the surplus Treasury balances, does it not?—Under the way it at present works it involves that by the collection of the revenue into the central

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treasuries in preparation to meet the Council Bills that will be afterwards drawn.

6823. I think you agree that that practice helps to bring about the high rates of interest which prevail in India at certain periods of the year?—Yes.

6824. And is, therefore, disadvantageous for the internal trade?—It is disadvantageous.

6825. If the surplus Treasury balances are lent in India to prevent those high rates, the money cannot be available for Council drafts; and *vice versa*, if held to meet Council drafts the money cannot be used to help the internal trade, that is, it cannot be used to give loans?—As at present constituted that is so. That is one of my strong arguments in favour of a Central Bank with a London office, because it would simply be a transference then of funds from the Indian branch of the bank to the London branch, and if actual currency is short in India it would only then be necessary to indent upon London gold to put into the currency reserve here and to withdraw it in India. But that would not take effect except as the very last resort. The Secretary of State's balances, which would be accumulating in the London office, would be practically available for the London market, because the Central Bank's reserve would be with the Bank of England.

6826. As at present conducted, it is a question, is it not, whether more consideration is due by Government to the business of the foreign trade than to that of the internal trade?—That is so.

6827. You also favour the Council Bill system with the object of reducing the movement of gold coin from Europe to India?—That is so.

6828. Does that apply also to bills sold for the purpose of restricting the imports of gold from Australia and Egypt? I ask the question because you mentioned specially the sending of gold coin from Europe to India?—It would perhaps be difficult to fix a rate that would prevent certainly Australian gold from coming in, unless you were to fix a very low rate.

6829. Your object is to prevent gold coin coming into India?—To prevent unnecessary gold coin being withdrawn from London at times of pressure, as I hold that a tight money market in London reacts on the Indian export trade.

6830. Your object is to prevent disturbance of the London money market?—That is my chief object.

6831. You propose to achieve that by sales of bills in London to the extent that would be sufficient for that object?—Yes.

6832. Would that prevent all possibility of disturbance to the London money market, do you think?—It would not prevent all possibility of disturbance, but it would mitigate it. If you have Egypt and other places calling for large quantities of gold, and if India comes into the balance as well, that increases the difficulty, certainly.

6833. If you sell bills in London, to a great extent that means, does it not, that you must sooner or later buy silver for coinage?—It will mean that, if the silver balances in India have run low.

6834. If you sell bills in England for the purchase of silver, does not that merely transfer the demand for gold in London from India to some other country?—If the balance of trade has to be paid for by London, it might mean the withdrawal of actual gold from the market.

6835. The effect would be that, instead of India wanting the gold, some other country would want the gold?—Not exactly that they would want the gold. They might pay off the obligations that they had in London.

6836. Still, the gold would be due to them, whether they took it or not?—A certain sum would be due to them. The gold might be withdrawn, I admit, but the probability is that they would be paying off another obligation or using it for investment in London generally.

6837. You say gold is only preferable to silver as currency because it is more portable?—I referred there to India. There is really no demand for gold as currency from the people there generally, and it is a case of more or less persuading them to take it; but

once they have got the taste for it, they will continue to demand it.

6838. Would you not say that if gold formed a substantial portion of the metallic currency in India, it would have greater advantages than mere portability?—I do not think there is any great advantage.

6839. In the case of an adverse balance of trade, for example?—I do not think in the case of an adverse balance of trade, unless the proportion of gold in active circulation was very much larger than silver, that much of the gold would come back again.

6840. (Sir Robert Chalmers.) Would it even then?—I am not prepared to say that it would.

6841. (Sir James Begbie.) You gave some figures relating to the Presidency Banks; these show a great increase in resources in the last 15 years?—That is so.

6842. Can it be said that these banks actively promoted that increase?—I think they have done everything in their power to promote the trade of the country and to develop their banks.

6843. To meet trade demands and to prevent a high rate of discount?—They have done everything they can.

6844. You agree, I think, that it is not their fault that periods of high rates of interest recur?—It is certainly not their fault.

6845. Regarding a centralised bank you would include, I understand, the whole of the Treasury balances in India and in London?—That is so.

6846. Also the paper currency reserve?—Yes.

6847. And the gold standard reserve?—No, the gold standard reserve would remain separate.

6848. It would not be included with this?—It would not be included in the bank's holding.

6849. If these balances were combined with the cash reserves of the Presidency Banks in one balance sheet, it would show a position of considerable strength, would it not?—It would show a position of great strength.

6850. Do you think a better idea could be formed of the financial strength of India from the balance sheet than from the same reserves isolated and distributed as they now are?—It would be more apparent.

6851. Would such a balance sheet affect the general credit of the Government of India in the eyes of the world generally?—I do not think it would affect the credit of the Government of India.

6852. Would it not improve the credit?—I do not think it would have any great effect upon the credit of the Government of India. As far as I know, the Government of India's credit is unquestioned at present.

6853. Under the scheme you outline you would look for smaller fluctuations in the discount rates?—I do look for smaller fluctuations in the discount rates.

6854. And a lower maximum?—And a lower maximum.

6855. Would that be an advantage to the trade of India generally?—That would be a very great advantage, in my opinion, to the trade of India generally.

6856. (Mr. Gillan.) What are these gold bars that come to India at present; I am told that they are refined and polished?—I understand so.

6857. (Sir Robert Chalmers.) Are they not 10-oz. bars from the Australian mints in the main?—To a certain extent; and from London, too, I understand. I may say that I do not profess to have a very great knowledge of this, because there is very little direct import of gold into Madras; it all comes through Bombay.

6858. (Mr. Gillan.) What I want to put to you—I do not know whether you have any knowledge of the subject—is, whether it is true that they might be described as a sort of fancy article going at rather a fancy price?—Not that I am aware of.

6859. They are manufactured in a sense; they are not rough bar gold, are they?—No.

6860. They are not the sort of gold that probably would go to a mint?—No. But so far as I know, they are not sold at any fancy price. There are certain marks that carry a slightly higher price than others.

6861. (Lord Faber.) Do I understand you to say that these bars imported from Australia and from

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England in the condition we have just had mentioned to us, would not go to a mint if there was one?—If there was a mint my suggestion is that so long as sovereigns are legal tender there would be no object in importing bars in preference to sovereigns.

6862. But you do not really think that these bars are fancy articles because they are polished, and so on, do you?—No, I do not. These bars are imported very largely for ornaments, and, in fact, so are sovereigns very largely used for that purpose. I know in one small village in our Presidency they take between 300 and 400 sovereigns a week from Bombay, which are melted down immediately and manufactured into an imitation coin representing the old 5-franc piece, which is very popular as an ornament for a necklace. These imitation 5-franc pieces are not counterfeit coins, because while they have the head on one side, on the other side they are blank.

6863. (Mr. Gillan.) In the same connection you have mentioned South Africa, and I do not quite understand this remark of yours—you say the exports from India to Africa are negligible?—That is so.

6864. But there is a trade done there, because there are steamers going from India to South Africa?—That is so.

6865. What do they carry?—They carry various Indian produce.

6866. You mean that it is on a small scale?—Yes; it is not sufficient to take into serious consideration for repayment in gold.

6867. What do those steamers bring back from South Africa—I am told they bring back very little?—It is, so far as I am aware, very little.

6868. Would it not be worth the while of these steamer companies to offer very low freights to take the gold to India?—I believe it would.

6869. Then you think it is quite conceivable that you might have gold going to India?—Quite.

6870. In fact, do you think it might reach a pitch which would be inconvenient?—It might.

6871. Is that what you claim—that if it is possible at all it would be so?—If gold can be brought profitably from South Africa, then that gold would come until the exchange was knocked down to such an extent that it would be more profitable to send it round the old course.

6872. In regard to Council Bills I am not sure that I understood you properly in your reply to the Chairman yesterday. I think you said that the interests of trade were a more important factor than Government interests; is that so?—It seems to me that at present the functions of Council Bills are more important with reference to trade generally.

6873. The position is this, is it not, that the Secretary of State, having money in India, wants it at home?—He might require money at home.

6874. And a good many other people who have money here in London want it in India?—That is so.

6875. The Secretary of State and those other people simply exchange obligations?—That is so, up to a certain point.

6876. That being so, can he take money in London from those other people which he does not want here and pay out money in India, which *ex hypothesi* he requires there?—I think that that can be done through the Currency Reserve.

6877. Do you think that that is the proper thing for the Secretary of State to do?—I think that under the circumstances it is desirable, in order, as I have said, to avoid the withdrawal of large quantities of gold from the London money market, which would immediately react upon the export trade of India.

6878. I put it to you that the question is really one of the distribution of the Secretary of State's funds according to requirements, and that the advantage to trade is incidental; but you do not accept that?—I do not accept that with the closed mints. If the mints were again open to silver it would be a different matter.

6879. (Chairman.) You do not recommend the reopening of the mints, do you?—No, certainly not.

6880. (Sir Robert Chalmers.) Does anyone in India?—I have heard it.

6881. A voice crying in the wilderness?—Yes.

6882. (Mr. Gillan.) I think you recommended that Council Bills should not be sold at less than 1s. 4d.?—Yes.

6883. As a practical question, would you now at the present moment stop the sale of Council Bills?—Yes, I should stop it.

6884. Probably, then, the stoppage of these sales would continue for the next few months?—It might.

6885. Meantime, how would the Secretary of State supply himself?—If he has any need of funds, if his balance here is low, he would do it through the Currency Reserve. You have many millions in London at present, so you could release gold here and put silver into the Currency Reserve in India.

6886. I thought yesterday you mentioned the Gold Standard Reserve?—I think I said the first operation should be to release gold from the Currency Reserve.

6887. In any case the Secretary of State is then reducing his sterling resources?—He is.

6888. Do you think that is a wise thing to do, in view of the possibility of a failure of rain?—So far as I can see, eventually it will make no difference. It is only that he has anticipated the sales by a short time. Selling Council Bills below 1s. 4d. indicates that there is no real demand. It will not affect the balance of trade eventually. The balance of trade has got to be met by Government unless they throw up the sponge, and it is easier to keep exchange steady than it is to bring it back again once it has dropped. My object is not to let it drop.

6889. It comes very much to the point Mr. Keynes put to you yesterday, that you consider the Secretary of State is now in such a strong position that he can afford to attempt this mechanism of a higher exchange than hitherto; that is to say, he lets it drop now to 1s. 3½d., but he can afford to keep it up to 1s. 4d.?—That is so.

6890. The general position of the Indian money market is, is it not, that you have almost what you may describe as a plethora of all-the-year-round money and a temporary strain in the cold weather?—No; I think I should put it that the plethora is for quite a short time.

6891. What do you pay for your deposits?—I pay 4 per cent. for all the year round, and in what I call the slack seasons I will not receive short deposits.

6892. I am speaking of 12 months' deposits; you pay 4 per cent. there?—Yes.

6893. Do the other Presidency banks pay so much? I think the Bank of Bengal does not.

6894. Probably it pays less?—I know the Bank of Bengal pays less; they pay 3½.

6895. Is it within your knowledge that any of them have been turning away deposits?—It is not within my actual knowledge, but I have heard that deposits requiring higher rates have been refused.

6896. Supposing the giving out of Government balances was to reduce the rate of money in the cold weather, your deposits would be earning less then, would they not?—It is possible that the result would be a reduction in the rate of interest allowed.

6897. It might be possible?—It might; but I rather think that trade would develop the outlet for it, and that we would still be able to pay the 4 per cent.

6898. (Lord Faber.) Of course, coming into the market with a big deposit must necessarily knock down the price of money?—It would knock down the price of money.

6899. (Mr. Gillan.) What is stringency due to? There is a need of money to finance the crops, and you say there is a withdrawal of money by Government?—From active circulation.

6900. Are those in your opinion the only two factors?—Those are the main factors.

6901. Could you have a stringency, we will say, in a time of indifferent or insufficient crops?—It is unlikely.

6902. How is this extra demand that comes in cold weather met? I presume you employ your deposits to a much larger extent than in the off-season?—That is so.

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6903. That is one thing. Are there any local resources?—There are no other local resources.

6904. Only the deposits at the Presidency Bank?—For trade generally?

6905. Yes?—There are the exchange banks. They do to a certain extent finance the local trade. Then there are the native bankers.

6906. I suppose the other banks are really in the same position as you? They have been holding up a lot of money, and then taking that out and using it in the cold weather?—In the busy season.

6907. What do the exchange banks contribute? You have got all this money in India that has been lying idle say for a considerable part of the year, and that is brought out and used; do the exchange banks bring in some from outside?—They bring in to a certain extent from London.

6908. We have been told that there is a sort of hiatus between the time when money has to be taken out to finance the crops and the time when the money comes back through Council Bills; that is what you said yesterday, I think?—That is what I said.

6909. Do the exchange banks not, as a matter of fact, anticipate, if I may say so?—No, I do not think they do anticipate.

6910. There are no finance bills in India, are there?—I think not.

6911. They are drawn actually against produce?—They are drawn against produce, so far as I am aware.

6912. As regards the general relations of the Indian and English money markets, I think a witness told us that there was very little of such transfer of funds between the two countries which influenced the bank-rate as generally happens between any other two countries; is that your opinion?—That is my opinion.

6913. Then why is it that there seems to be so little interchange of capital, that is to say, why does not more go into India when you have a very high rate, and why does it not flow out when it is not usable in India?—There are two factors—there is the fear of the loss on exchange, and I think there is not the machinery. The exchange banks have not got many branches throughout the country, and their business is largely in financing the crops when they are ready for export.

6914. I take it the ruling factor is still this risk of variation in the exchange?—That has a great deal to do with it.

6915. That is the chief factor?—I think so.

6916. (*Lord Faber.*) Is the variation in exchange enough to prevent money flowing into a country where the interest is very high, from a cheap country?—If the rate of interest is high for a short period only?

6917. Yes?—If money was brought in to any large amount, the rates of interest would immediately fall.

6918. It is not a big enough country to get an average high rate of interest?—I think not.

6919. (*Sir Shapurji Broacha.*) And the cost of bringing it has also to be taken into consideration?—Yes.

6920. (*Mr. Gillan.*) What happens to this money in the country? How far down, so to speak, does the money get? Consider the cultivator; what sort of interest do you suppose he is paying for the money he gets?—He pays a very high rate of interest—up to 18 per cent. perhaps.

6921. Not more than that?—I do not think a large cultivator would. A very small cultivator would probably pay very much higher.

6922. Is that inevitable under the conditions under which those loans are made, or is it due to some separation in the money markets of India which prevents the money getting down to the country?—I think it is largely due to want of competition by large institutions, which would enable the cultivator to get financed cheaper. At present he is very much in the hands of the local moneylender.

6923. Does the money get down from the central markets into the hands of these local moneylenders?—Indirectly it does.

6924. Is there any channel of communication?—The channel of communication is through the native bankers.

6925. I think you mentioned co-operative credit societies yesterday?—They were mentioned.

6926. Have you had anything to do with the financing of them?—To a small extent through the central bank in Madras. The rural banks borrow from the urban banks, the urban banks borrow from the central bank on promissory notes, and the Bank of Madras to a certain extent opens credits for the central bank.

6927. Have you developed cash credits in connection with these co-operative banking societies?—Yes.

6928. In connection with this question of the central bank a good deal of stress has been laid in the old correspondence on the restrictions of the powers of the Presidency banks. It was pointed out that there was no elasticity of funds or resources in case of stringency, and that when it is required to raise money in India there was no one else likely to be in a position to find the money; I presume that is so?—That is so.

6929. Government would not undertake to lend, and they cannot borrow in London; that was the case which was put. Would this need of elasticity in case of crisis or scarcity be sufficiently met by the proposal to give loans from the Treasuries or from the paper currency, or would a resort to London still be necessary?—A resort to London would be desirable.

6930. Do you think the situation is not sufficiently met by these loans which are proposed from Government funds?—It is conceivable that the Government balance would be very low, and that the notes also had gone down and would not be very much available for exchange. There is nothing gained by closing the outlet to London.

6931. On this question of bringing any money from London, can the exchange banks not bring out all that is required? I want to bring to notice in that connection a letter that was written from the Bank of Madras in 1903.* It is a letter written by Mr. Ker. He said: "The directors wish to say that owing to the growing confidence in the fixity of exchange, money finds its way to India when required through so many other channels that there is not any of that fear of the recurrence of stringency in the Indian money market which there was some years back. My directors therefore indicate that the occasions on which this bank—that is, the Bank of Madras—is likely to find it necessary to have recourse to the London market will not be frequent"; that is to say, they were then apparently looking chiefly to the exchange banks to supply their needs?—Conditions have changed very much since this letter was written, but even now, if improved facilities in India were afforded, resort to London would not be very frequent, but what is desired is that in times of necessity there should be some door open.

6932. That you should have that resort?—Yes. You would not of course try to work up to a position which would make a resort to London necessary.

6933. As regards loans, or increasing the Government balances with the banks, as you know, great objection has been taken in the past on the grounds that the Government is already a very large depositor, and that it is exposed to sudden contingencies, and may be obliged to call up the cash at a moment's notice. That sort of position is particularly unsound in India, because, as I think Sir Clinton Dawkins said, although the Indian banks have excellent reserves, it would be very difficult for them to liquidate them at once, and there is no other resource to which they can suddenly go, as a bank at home would go?—That is, I think, a very strong argument in favour of giving the central bank power to go elsewhere.

6934. Under the present conditions you appreciate the difficulty of the Government's position?—Yes, I do.

6935. What is your rule as to the maintenance of a cash balance; what sort of principle do you work on?—Do you mean to what proportion?

6936. Do you keep a sort of minimum?—Yes, we have a minimum.

6937. How much is that?—About 33 per cent.

* See Appendix XV., page 468, para. 4.

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6938. That is what was, I think, considered about the proper figure in the correspondence that took place some years ago?—Yes.

6939. You still go on that principle?—We still go on that principle of 33 per cent. of the liability on demand.

6940. (*Lord Faber.*) What do you mean by cash?—Actual cash—either rupees or Government notes, and nothing else. Balances with other banks are not included.

6941. (*Mr. Gillan.*) That is the proportion of cash to liabilities on demand and within one month?—Yes.

6942. You do not extend it in the case of Government balances?—No, that goes in with the payable on demand.

6943. Have you seen the figures Mr. Abrahams gave us of the percentage of Government deposits to your capital and reserve?—No, I have not seen those figures.

6944. In the case of your bank, the percentage of the Government deposits to cash seems to vary; it is between 30 and 40?—That would be about it. That is the Government deposits to cash.

6945. Do you think that is unduly or dangerously high?—No, I do not think so.

6946. About the increase of capital which you proposed, I think you said 10 millions?—Bring it up to 10 millions; that was the figure I suggested.

6947. There was a passage in the old correspondence when this was being discussed before, in which Sir Clinton Dawkins, I think, said† that an increase in the capital would involve a corresponding increase in the cash balance; is that the case?—I do not quite follow. In what way would it involve a corresponding increase in the cash balance?

6948. It was not clear to me, and I thought I would ask you. That was apparently very much the reason why at that time they wanted an increase in the capital, so that they might get an increase in the cash balance. You suggested, I think, yesterday, that some increase of capital might be instituted in view of the transfer of the Paper Currency Reserve?—Yes, in view of the liability in connection with the note issue.

6949. That liability would be covered, surely, by the reserve held?—Of course it would depend upon the constitution of the note issue. It does not follow that because the currency was transferred to the bank, the same law would apply to the bank as applies to the Government now, and that the fiduciary issue should be a fixed sum of 14 crores only.

6950. I quite agree with that; but still, whatever decision was come to, some arrangement would be made?—Yes; probably there would be specific assets ear-marked against the note issue, or it might not be so—it might be held in the general assets of the bank in the same way that the Bank of France's assets are generally held.

6951. So why should you increase your capital on that ground?—There is a very large increased liability.

6952. I am assuming that the liability is provided for in one way or the other—is sufficiently provided for otherwise?—But if the notes are to be partly secured by the general assets of the bank, it means that the bank's liability is much higher, and the usual thing is to proportion your capital to your general liabilities.

6953. Apart from the Paper Currency, is there any other reason that strikes you for increasing the capital?—With the larger deposits that we expect to get from the Government balances, the liabilities generally all round I anticipate will be very much increased—practically doubled.

6954. (*Chairman.*) Your suggestion really comes to this, that if the Government is to put 4 millions of capital into the bank, it will be encouraged to lend the bank a larger sum than at present?—Yes. I suggest that as a means of raising capital. There would be a difficulty in raising such a large sum of money immediately elsewhere, but the Government could gradually dispose of those shares as the market took them up.

It is only an immediate way of bringing that about without upsetting the markets in any way.

6955. In the meantime the security of the Government's balances would not be increased?—No. That would be so, from the Government's point of view, but the general public would be much larger creditors than the Government, and from their point of view it would not be so. The Bank's liabilities to Government might be 12½ million, but to the public about 55 million.

6956. (*Mr. Gillan.*) Would you be able, as a matter of fact, to use this 10 millions at once?—I think there would not be very great difficulty in finding outlets for it; I do not say immediately in the actual trade of the country, but so far as I am aware, India is calling out all round for development in railways, in harbours, in every conceivable thing, and there would be no difficulty in utilising the money immediately. I could put it all out in Madras in a week for new railways, if I had it.

6957. It is rather curious, if that is the state of affairs, is it not, that the Presidency Banks should find so much difficulty in making use of their deposits?—We have no difficulty in making use of our deposits. We could immediately undoubtedly invest the whole of it in railways and other securities; but when the busy season came round, then there would be no money left to finance trade. We have to look to that.

6958. I think Madras is somewhat different from Bombay and Calcutta, and of course Madras in itself would only be able to use a comparatively small sum?—I can put up a very large sum in the development of the country. If you develop the country the trade will develop in proportion.

6959. Suppose you raised your capital to 10 millions, would you be able to maintain your present rate of dividend?—I conceive that in the immediate future there is a possibility that the earning power might be reduced, but in the long run it must be so beneficial to the country that they must share in any developments, and the dividend power would rise.

6960. That would be a very serious drawback, would it not, in the launching of the scheme?—I do not think so, because the earning power of the banks is not all paid away in dividends by any means.

6961. You think it would not make it difficult to get the money, or to negotiate with the present shareholders; you think it would not embarrass the negotiations?—There might be some opposition on that score.

6962. On this question of the capital it seemed to me that you are increasing capital in anticipation of requirements, and that it would be better to increase the capital gradually as you could find occupation for it?—The object of the increase of capital is to proportion it to your liabilities.

6963. You must face the fact that for a little time you will not find full employment for it, so that probably you will not be able to keep up your rates of dividend?—I do not think it would be very long before we found we could put it into full employment, as long as railways and irrigation works are calling out for money.

6964. (*Chairman.*) You have said once or twice the drain of gold from London in your opinion reacts on Indian trade?—On Indian export trade.

6965. I understand you to mean that it reacts injuriously?—Yes, injuriously.

6966. Would you develop that for a moment?—A large export of gold from London naturally raises the rates in England, and as the export trade is financed in England that would make its finance more difficult. With higher rates, as I said, the probability is that prices will drop, so that the consumers on this side of it would live from hand to mouth.

6967. In your opinion, I understand, the bank rate in London is quite as important to Indian trade as the bank rate in India?—I would not go so far as to say quite as important, but it is a very important factor.

6968. At least it ought never to be left out of account?—It ought not.

6969. In considering the operations conducted by the Secretary of State?—I agree to that.

6970. (*Lord Faber.*) You do not appear to think that gold in circulation is an advantage?—Not in India—I do not think so.

* Appendix I., page 5.

† Appendix XV., pp. 397-8.

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MR. WILLIAM BERNARD HUNTER.

[Continued.]

6971. Is it not the fact that having gold in circulation is an advantage, because gold is the money of the world and can be used to pay foreign debt in case of need?—In my opinion, if gold is put in circulation in India, when the time came to pay the foreigner that gold would not be forthcoming.

6972. It would be hidden away, do you mean?—Yes. There is so much coin in active circulation in India and banking is not developed to any extent. There are large tracts of country where the actual coin goes out; and if the demand for the export of gold comes suddenly, I do not see how this money that is out in small sums in the country will come back again.

6973. You said another thing that was interesting, namely, that the banks would be inclined to carry more investments in their balance sheets if, at certain times of the year, there was a central institution where they could borrow on these investments?—That is so.

6974. Do you discount direct the small bills of agriculturists? We do not do that in England, but, as you know, many millions are spent in the discounting of bills under 5*l.* by the Bank of France. Do you do that at all in India?—Not so small as that. We discount direct bills that are equal to about 100*l.* or less—down to 40*l.* perhaps.

6975. (*Sir Shapurji Broacha.*) Between 1898 and 1902, under Lord Curzon's Government, the mints were empowered to take gold wherever it came from at the English rate of 79*s.* 9*d.* per ounce, and then some gold yen came from Japan, and Mysore gold was given to the mint, Lord Curzon personally entering into an arrangement with the Mysore Mines to take gold on the English basis instead of its being sent to England?—I did not understand that the Indian mines ever gave gold to the mints. I understood that they had already made arrangements for the sale of their gold in London, and therefore that they could not do it.

6976. They did so for a certain number of years, and then Lord Curzon's Government backed out of the arrangement and the gold came to England. In those years no gold came from Africa, did it?—I am not aware of any gold coming from Africa then.

6977. Yet men would like to bring gold from any place in the world if they could save in exchange $\frac{1}{8}$ th or even $\frac{1}{16}$ th of 1 per cent. as they have been doing now?—That means that they dispose of their gold in the better market.

6978. A question was asked of you about African gold, but do you not think the Secretary of State's method of selling bills is better? Last year he sold about 25 millions worth, and gold came to India to the extent of 29 millions, so there was no impediment to gold coming to India. Therefore, why should the sale

of Council Bills be an impediment to gold coming to India at all?—I conceive of no reason why there should be an impediment to gold coming out. If gold is actually demanded, gold must come.

6979. You say he should sell below the gold point in order to stop gold coming out to India?—So as not to encourage it.

6980. That raises a great outcry in India, and I think the Secretary of State's method is better, because though he sells more than the amount budgetted in the Council Bills, yet gold does come *pari passu*—it did last year and the year before?—It will come from Australia and also from Egypt.

6981. Not allowing the gold to come would rather raise an outcry?—I do not see why, because the Secretary of State sells Council Bills below the gold point; that will prevent gold coming in if it is required.

6982. I think the present method is the best, as there is no impediment to the gold coming in?—My opinion is that he should continue to sell below the gold point.

6983. (*Mr. Keynes.*) How are your directors appointed at present?—By the shareholders.

6984. Are they in fact appointed in that way, or is it, as is often the case in England, that the existing directors nominate their successors?—If a director retires in the course of the year, the vacancy is filled up by the directors, but at every annual meeting two directors retire, and it is open to the shareholders to re-elect them or not.

6985. Is there any difficulty in getting the best available talent?—No, in my opinion we get the best available talent in Madras in this matter.

6986. You do not find cases in which men who would be exceedingly suitable cannot find the time for the work?—No, we have not found it so. It is considered an honour to be on the Board of the Bank of Madras, and the best men are always available to take it up.

6987. How are they remunerated?—The remuneration is so much per meeting—so much for a general board meeting, and so much for a committee meeting.

6988. It is not any substantial amount?—It is not a very large sum.

6989. Nothing that you could expect a man to give a good deal of his time for?—No.

6990. Might not Sir Ernest Cable's suggestion of uncalled capital meet the point which was raised by Mr. Gillan at the end of his examination?—Do you mean by uncalled capital, instead of calling up the full amount of capital—do you mean an uncalled liability?

6991. Yes?—I think it would to a certain extent.

The witness withdrew.

At the India Office, Whitehall, S.W.

SIXTEENTH DAY.

Thursday, July 24th, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

LORD FABER.
LORD KILBRACKEN, G.C.B.
SIR ROBERT CHALMERS, K.C.B.
SIR ERNEST CABLE.
SIR SHAPURJI BURJORJI BROACHA.

SIR JAMES BEGGIE.
MR. ROBERT WOODBURN GILLAN, C.S.I.
MR. HENRY NEVILLE GLADSTONE.
MR. JOHN MAYNARD KEYNES.
MR. BASIL P. BLACKETT (*Secretary*).

MR. CHARLES CAMPBELL MCLEOD called and examined.

6992. (*Chairman.*) I think you are chairman of the Indian section of the London Chamber of Commerce?—Yes.

6993. And you represent that section here to-day?—Yes.

6994. You also represent the Bengal Chamber of Commerce?—Yes.

6995. In the memorandum which you have submitted to us (*see Appendix XXVI., page 597*) you express general agreement with the letter which has

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MR. CHARLES CAMPBELL MCLEOD.

[Continued.]

been addressed to the Commission by the Bengal Chamber*?—I do.

6996. I think it is your opinion that the fixing of the rate of exchange has been of great advantage to the trade of India?—I think there have been circumstances that have helped it, but I think on the whole it has proved so.

6997. May I take it that in any case under the circumstances of to-day you would not suggest any reversal of that policy?—No, I would not.

6998. In regard to the balances which have recently been held both in India and in London by the Indian Government and the Secretary of State respectively, have you any observations to make on their size?—None.

6999. In so far as the Secretary of State has withdrawn those balances from India to London, do you approve his action?—I do.

7000. I think in regard to the reserves which are kept, you express the opinion that the Gold Standard Reserve should be kept in London?—Yes, that is my opinion.

7001. Just give me briefly your reason for that opinion, please?—I think that the gold is always better held in London than it is in India, and that the securities can be lent out perhaps to more advantage in London than in India, and would be more quickly realisable.

7002. Perhaps one might add that if a crisis comes in which the Gold Standard Reserve has to be drawn upon, it would be in London that it would be needed?—That is so.

7003. As regards the amount of the Gold Standard Reserve, you are of course aware of the way in which it has increased up to the present time?—Yes.

7004. On one occasion the Indian Government withdrew for the purpose of railway development something like a million, which would have gone otherwise to the Gold Standard Reserve; do you approve of that action?—Under the circumstances they had to find the money somewhere, and so long as they put it back again I approve of it, because it was urgent.

7005. You say "so long as they put it back again"?—I would not approve of it permanently.

7006. Am I to infer from that that you would not like that act to be repeated?—I would not.

7007. Have you any figure in your mind as to the sum which the gold in the Gold Standard Reserve should reach?—Yes, at present 5 millions.

7008. You say, "at present," but what exactly do you mean by that?—I mean that as the trade of India is at present, I consider 5 millions a prudent reserve to be held in gold; but if the trade of India increases, as I think it will, then I think the reserve might reasonably be increased.

7009. When you speak of 5 millions, do you mean 5 millions in actual gold?—Yes.

7010. Would you increase without limit, from the sources by which the Gold Standard Reserve is now supplied, the amount to be held in securities?—Yes.

7011. You say you think it is sufficient to hold 5 millions in actual gold; what process of reasoning has led you to fix upon that particular sum?—There is no actual process of reasoning, beyond the fact that I consider 5 millions is a sum that ought to be held in gold proportionate to the extent of the Gold Standard Reserve at present.

7012. When in 1907-8 the Government had to have recourse to the Gold Standard Reserve, the amount they had to withdraw from it was very much in excess of that figure of 5 millions, was it not?—Yes; but then 1907-8 was an exceptional year.

7013. I suppose it would only be in an exceptional year that the Government would need to have recourse to the Gold Standard Reserve?—That is so.

7014. Do you think that 1907 and 1908 give you the measure of the possible demand which might be made on the Gold Standard Reserve under present conditions?—It is very hard to say. I would not like to give a definite opinion.

7015. One witness who came before us said the position would have been much more grave if what he

called the storm centre in those years had been in London instead of New York; perhaps you would agree with that?—I do agree with that, certainly.

7016. There was a famine in those years in India, but not a very severe famine, I think?—That is so.

7017. India has known much greater and much more severe famines?—Yes, it has.

7018. So the balance of trade might have been more adverse than it was?—It might.

7019. Do you not think then that your figure of 5 millions is rather a low one?—I do not, looking to the present conditions.

7020. I think the amount which was withdrawn at that time in different forms was something like 17 millions?—Yes.

7021. I understand from what you have said that in fixing the actual gold in reserve as low as 5 millions, you rely upon the possibility of rapidly realising securities to the further amount required?—I do.

7022. Do you think that recent experience would lead you to build very confidently on that hope? Suppose, for instance, you wanted to realise 10 millions of securities, even the best securities to-day, do you think it would be very easy to do it?—I do not; but I consider the London market is in an exceptionally bad condition at the present moment. It has not often been so.

7023. Perhaps you would agree that the Gold Standard Reserve is, in fact, a form of insurance against bad times?—It is.

7024. And that that being so, it should be large enough, and in a form liquid enough, to meet any strain which we can reasonably expect to be brought to bear upon it?—That is my opinion.

7025. But you think with that 5 millions in gold and the rest in securities those conditions would be met?—At the present time. I have stated that it might quite easily be increased to 10 millions in future, as the volume of trade increases.

7026. I notice that the Bengal Chamber of Commerce say that they would like to see a larger sum than 5 millions held in actual gold*?—Yes, I have noticed that.

7027. In establishing a Gold Standard Reserve the Government of India followed the recommendations of the Fowler Committee, but in the matter of the establishment of a gold currency they have not; I gather from your memorandum that you think they have been wise to depart in that respect from the Fowler Committee's recommendation?—I do.

7028. Do you regard gold currency as a wasteful form of currency?—I do.

7029. You consider that gold in circulation is less valuable for the support of exchange than gold in reserve?—I do.

7030. On the whole, therefore, may I take it that you would desire to see the Government of India push the circulation of notes as far as possible?—I would.

7031. And keep their gold in their balances and reserves as much as possible, instead of forcing it into circulation?—That is so.

7032. I think you also express the opinion that a gold mint is not needed in India?—I do not think it is at present.

7033. If it were decided to open one, do you think they would get much gold to coin?—I do not.

7034. Do you think that the mere opening of a mint in India would have any material effect in bringing out gold from the hoards?—It is difficult to say, but in my opinion it would not.

7035. Am I right in thinking that you indicate in your memorandum that it is rather through an extension of banking facilities that the gold might be attracted from the hoards?—Yes, that is so.

7036. That brings me to the question of banking. Are you in favour of the suggestion which has been made for the establishment of a State or Government bank?—No.

7037. Perhaps you would tell us briefly your reasons for your opinion?—I have given them under the head of Central State Bank in my memorandum (page 597), and I do not know that I can improve on

* See Annex to Appendix XXVI., page 601.

* Page 603, paragraph 7.

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[Continued.]

what I said there. I do not think an institution of that kind is necessary at present. The paper currency is very well managed by Government; the existing banks are quite capable of conducting the trade as it is at present, and also quite capable of great expansion; the shares of the three Presidency Banks are at a considerable premium, and so also the shares of the Exchange Banks are at a considerable premium; and none of these institutions, including the joint stock banks in India, would have any difficulty in extending its capital to a very large extent in India.

7038. You say in the passage to which you refer that you think "it would be quite impossible efficiently to control such an institution from one centre, and especially in a vast country like India" (page 597)?—That is my opinion.

7039. Do you attach great importance to the local management of the Presidency Banks at the present time?—I do.

7040. Would it be easy, in a country situated as India is, to compose a central board which would be representative of the different parts of India and would consist of men of sufficient leisure really to control the business?—I should say it would be very difficult indeed.

7041. It is not very easy at the present time, is it, to find men of sufficient leisure to keep a constant check upon the affairs even of the Presidency Banks?—No, there are very few men of leisure in India of that capacity.

7042. Do you think if there were a central bank, the management of it could be practically left either to the officials of the banks or to official representatives of the Government who might be appointed to give their whole time to the directorate?—If there were such a bank, I think it would require to have men who have studied the conditions in the various Presidencies in India.

7043. It would, I suppose, be necessary to have local boards acting under the central one?—It would be.

7044. May I take it generally that from your experience you do not think it would be possible to get a central board at once really representative of India and really capable of giving such time as would be required for the effective management of the affairs of the bank?—I do not.

7045. In that connection you suggest that the attention of the Government might be more wisely directed, I think, to the encouragement of co-operative societies in order to help the agriculturists?—I do.

7046. That is rather outside the scope of our reference, but I would like to ask you two questions upon it. Have you watched the progress of those co-operative societies in recent years?—Yes, I have.

7047. Are they tending to bring out money from the hoards, and to induce the native to deposit his money with them rather than keep it in his own house?—I think that is the case.

7048. Would you agree with some other witnesses who have been before us, who have thought that too much stress was laid upon the hoarding propensities of the Indian, and that, given his circumstances—in many cases far away from a bank, remote from communication—he did not keep more money in his house in proportion to his means than we keep under our immediate control here?—I would be inclined to agree with that opinion.

7049. If that is so, until those circumstances are changed you could not expect much of the money now held to come out of the hoards?—No.

7050. Now I want to ask you a question or two about capital expenditure. I think you have urged upon us in your memorandum that there is an enormous need for railway development in India (pp. 598–601)?—Yes.

7051. And that the Indian Government might not only usefully spend, but would be obliged to spend, larger sums year by year on their capital development than they have been spending in the past?—That is so.

7052. Do you think that for those purposes they can borrow more freely in India itself?—I do.

7053. To what extent, do you think—I ask you only for a very rough answer?—I think they could borrow five millions per annum at present in India.

7054. On terms as good as they could borrow in London on a sterling security?—I am not prepared to go as far as that; but at the present moment you will notice that India $3\frac{1}{2}$ per cent. sterling securities are about 87, whereas last week an Indian Government loan of $3\frac{1}{2}$ per cent. was all taken up at 96 $\frac{1}{2}$.

7055. The present circumstances seem to be specially favourable to borrowing in India?—They do. That is what I have stated—that there are periods when it is favourable.

7056. Speaking generally, over a period of years, is it your opinion that the Indian Government might wisely and safely borrow more than they do in India?—I would not like to give an opinion on that, except that I think they could borrow more for railway expenditure, if necessary, than they do at present in India.

7057. In any case you would like to see them borrow as much as they prudently can in India?—I would.

7058. Either in order to add to their total resources or in relief of their borrowings in London?—That is so.

7059. As regards the purchase of silver bullion for coinage, you say that recent experience seems to render it "highly desirable that purchases of silver should be made more regular than intermittent"?—Yes.

7060. I understand you to mean by that that the Government should purchase a moderate amount of silver bullion year by year in anticipation of future demands?—That is so.

7061. I think it has been the case in the past that the demand for rupees has varied very much and very rapidly from year to year?—It has.

7062. Do you think that the scheme of more regular buying that you recommend is practicable under those circumstances?—I do. Having regard to recent experience, there is no doubt that the hands of the Government have been forced to a certain extent, and I do not think they ought to allow themselves to be in a position to have their hands forced. I think therefore that their purchases of silver should be more regular, however small they may be, so as not to show to the public, or to those who are interested in the purchase of silver, that their silver bullion is at a low ebb, and thus give those people knowledge that the Government must come in to buy. I think the Government should always have a regular system of purchasing silver; as to the extent, they should be guided by the state of trade, and it might therefore be less one year and more another year; but the purchases should be more regular.

7063. I think that in the years preceding 1907–8 there had been a considerable demand for additional rupees from the Government; and in those years there was a great return of rupees to the Treasury, if I remember aright, and it took some little time to work them off. Supposing that you had been starting such a proposal as you have just made about 1907–8, when, instead of the public requiring more rupees they were returning them, then if you had gone on buying the silver you would have accumulated large quantities of silver in your Currency Chest, or somewhere, which you could not pass on to the public for the time?—Under those circumstances the thing would be to stop purchasing for a time, undoubtedly, until those rupees were worked off.

7064. But as soon as they began to work off would you then begin to buy in moderate amounts?—I would.

7065. It was common knowledge, I suppose, before the Government began to buy a year ago that the time must be very close when they would have to buy?—That is so.

7066. And that they would have to buy in very large quantities?—That was the supposition.

7067. If I gather rightly, your feeling is that that places Government at the mercy of the market, and that Government ought not to be in that position?—That is so.

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[Continued.]

7068. So, even at the risk of having silver bullion lying idle in some quantity for some time, you would make regular purchases rather than wait until their hands were forced?—I would.

7069. In regard to the financial organisation and procedure of the India Office you suggest, "without offering any criticism," that the Finance Committee of the India Office should be composed of an ex-Civilian who has held the position of Financial Minister in India, an Indian Presidency bank manager, a London joint-stock bank manager, a retired exchange bank manager, and a mercantile man with a considerable Indian experience. Will you give me your reasons for those proposals?—My reason for those proposals is, as I said, without offering any criticism on the past at all, that that combination would, in my opinion, be the mixture, if I may call it so, of the class of officer who would be best capable of conducting the financial dealings of the India Office and of the Indian Government.

7070. Does this indicate a feeling in your mind that Indian experience is not sufficiently represented in the present financial organisation of the India Office?—It does.

7071. On the other hand, speaking not of the organisation itself, but of the policy which it has pursued, I gather, both from what you have said and what you have written, that you do not suggest for a moment that that policy has been otherwise than in the interests of India generally?—I do not.

7072. (*Lord Faber.*) With regard to your opinion that five millions of actual gold in the Gold Standard Reserve would be sufficient, you are aware, of course, that at the period of the last crisis, 1907, India only had one bad year, not two bad years running?—Yes; it was the financial year 1907–8.

7073. There was a bad monsoon in 1907?—Yes.

7074. In that year London was in a good condition to stand the demand on it for gold?—Yes.

7075. I suppose it would not be an unheard-of thing to have two bad monsoons running in India?—No, it would not be an unheard-of thing—we have had two; but it is not very probable.

7076. You may have to face two bad years running, and simultaneously a bad year in the London market: that is possible, is it not?—It is possible.

7077. Bearing in mind that in 1907 the demand for gold was, I think, 17 millions or thereabouts, when India only had one bad year; and bearing in mind the possibility of two bad years and a bad year simultaneously in London: do you think 5 millions would be anything like sufficient?—The case you put, to my mind, is rather extreme.

7078. I know it is?—I have said in my memorandum that it might quite reasonably be increased to 10 millions. I would not object to the 10 millions, but my opinion is that it should be 5 millions at present, and as the trade increases we could increase it to 10 millions.

7079. I suppose at the back of your mind, as at the back of the mind of all bankers, myself included, you think gold is a very expensive thing to keep?—It is a dead-weight; it does not earn anything.

7080. And you would rather run the risk of not being able to keep up the exchange than forgo some interest which you would have to forgo if you kept a large supply of gold: is that a fair way of putting it?—That is right; I would.

7081. You are hardly in favour, I gather, of having much gold in circulation in India; you would rather have it in the banks, would you not?—I would rather have it in paper.

7082. Are you in favour of gold as against silver rupees for circulation generally?—No, I am not.

7083. I notice in the interesting letter from the Bengal Chamber of Commerce, paragraph 15 (page 605), that the amount of sovereigns now being used in India has increased very fast. That shows, does it not, that the population like gold as against rupees? If you look at the little table in paragraph 15 you will see that, while the receipts of sovereigns at the Post Offices in 1907–8 and 1908–9 amounted to big sums, from 1909–10 to 1911–2 they have been increasing markedly?—In

1908–9 it was down by 357,000*l.* and in 1909–10 it was down by 750,000*l.*—that is, it was a quarter of the previous year.

7084. And now it has jumped again to higher than that?—It jumped up in 1911–2.

7085. Probably this year, I should think, you will find a further increase still, on account of the gold going to India?—But it is a very small proportion.

7086. Still, there it is and it is increasing. That shows rather, does it not, that the people of India are getting to like gold as a circulating medium?—I would not like to say that.

7087. (*Sir Ernest Cable.*) I gather from the whole tenour of your memorandum that you approve of the policy which has been pursued in the past of cautious budgetting, of keeping taxation fairly level, and utilising the surpluses, if any, for reproductive capital expenditure?—That is my opinion.

7088. You prefer that policy to close budgetting, which involves fluctuations in taxation?—I do, especially in India.

7089. With regard to your remarks on the Gold Standard Reserve, of course there is a point at which any cautious man would say that a safe limit had been attained, and that no further sums should be placed to that reserve. You would favour the suggestion, probably, that any further profits on coinage after that limit had been reached might be spent on railway development?—I should like to say in reply to that that it would depend entirely upon what progress was made in the country itself, and how the exports were increasing. As I state in the memorandum, I do not think that the minimum quantity of gold to be held should be laid down rigidly; I think it would have to be guided by the progress of the exports of the country.

7090. But with due regard to caution, profits might be so utilised?—With due regard to caution, I should certainly think that part of the money made in coining might go to reproductive works, such as irrigation and railways.

7091. I think you said in reply to the Chairman that you thought the present banking facilities in India met the full requirements of trade?—That is my opinion.

7092. Of course you will admit that there are periodical stringencies in the money market?—There are periodical stringencies owing to what we might call good trade, but the rate of interest has not been very high.

7093. You would not say that that stringency has been caused, as has been said by some of the witnesses, by the withdrawal by the Government of money from the country in the collection of taxes?—No, I would not.

7094. Then you would not agree with the view that if there was a State bank into which those collections were paid at once, they would not have been withdrawn from the market and, therefore, the stringency would not arise?—That is so.

7095. I suppose you would agree that there are two classes of hoarding—there are the hoardings of the people in their huts who bury their few rupees, and there are also the enormous sums which we know are hoarded by the princes and maharajahs, and probably in the temples. Do you think that the institution of a State bank would give a feeling of security to those rajahs and princes to such an extent that they might bank their hoards?—No, I do not.

7096. With regard to financing agriculture in India, it has been suggested that a State bank would perform a very useful function in financing co-operative societies?—I do not think that is quite the way I put it.

7097. It is not in your memorandum; it was somebody else who suggested that. Do you not agree with it?—I am in favour of encouraging co-operative societies, but I am not in favour of encouraging co-operative societies through a State bank. I do not agree that a State bank is required at all.

7098. Do you think that the amalgamation of the three Presidency banks would render their cash more available for the general use of the country, instead

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of its being, as it is at present, in watertight compartments?—No, I do not.

7099. (*Mr. Gladstone.*) Referring to your suggested composition of the Finance Committee of the India Office, to which the Chairman has alluded, you would approve, I suppose, of the India Office being also fully represented on that Committee? There is no official representative in your list, there is merely an ex-Civilian. Would you not consider it necessary to have the best expert official advice added to this Committee?—Certainly.

7100. You think, I gather, that private enterprise should be encouraged, so that the direct capital commitments of the Indian Government may be reduced?—I do.

7101. With regard to the purchase of stores by Government you are, of course, aware that a very large sum is expended in London for the purchase of railway and other stores: on the grounds mentioned in my previous question, would you favour a policy by which the railways in India were encouraged to purchase and pay in India, thus reducing the obligations on the balances which the Government of India have in London?—If they were satisfied that the works in India could turn out wagons of the same class as they buy here, and that they could procure equally good and satisfactory stores, I would.

7102. By my question I meant to include the purchase of material from this country, but that they should be purchased by those who used the material and stores, and ordered and paid for in India?—I am afraid I do not quite understand.

7103. Under Government supervision in India the railway companies, for instance, would issue tenders in India, make their contracts there, make their own terms in regard to delivery, quality of goods and so on, and pay for the goods in India?—I see no objection to that.

7104. At present a large sum of money has to be provided in London by the Government to pay for those stores, wagons, and so on?—I do not see any objection to their being paid for in India.

7105. Would you not see a direct advantage in that being done? I would point out that managers and others, who may be ordering hydraulic machinery and things of that kind, would then be themselves in direct contact with the manufacturers and their agents, and so would probably get better value and, through competition on the spot, perhaps better prices?—What I understand you to ask me is whether it might not be more desirable for the Indian railways to purchase their stores in India than in London; I do not see any objection to their purchasing them in India.

7106. Would you see some advantage in lessening the direct commitments and the commercial work of Government by making such purchases in India?—Yes.

7107. It would withdraw that particular section of work from the India Office here?—I am afraid I may not have understood you. What I thought you meant was, would there be any advantage in the Government of India purchasing stores for Indian railways by tender in India for stores that were made in India, giving the Indian people who made the stores, or partly made them and partly imported them, like axles for carriages and so on, the benefit of that. I say that there might be an advantage in that, and that these things could be paid for in rupees in India; but I cannot see how it would affect the balances one way or the other, if that is the point you have in your mind.

7108. It would not affect the trade balances obviously. We have had criticisms on the large extent to which the Indian Government, and the India Office more especially, are engaged in banking and what I call commercial work, such as buying railway stores. You are aware probably that not one shilling's worth of stores can be purchased at present without the direct sanction of the Secretary of State in regard to all the sterling railway companies?—Yes, I know that.

7109. Turning now to the letter of the Bengal Chamber of Commerce, in paragraph 10 (page 604) they say: "The difficulty in India is the provision of the 'necessary security' for any loans that might be made in India. Do you not consider that there would be an

advantage in the Government making an issue of short-term bonds which would command a fixed price about par, which would thus largely increase the type of security which could be used for obtaining loans in India from the Government?—Is it your suggestion that the Government should issue short-dated bonds and that these should be used by the holders of them as security for borrowing money from the Presidency banks?

7110. As they do in this country, where they issue all kinds of securities—what are called floaters, long-term loans, short-term loans, registered stock, and bearer stock?—I do not see any objection to it.

7111. That would meet the point made by the Bengal Chamber of Commerce as to the difficulty in India of the provision of the necessary security?—The explanation of that, which I daresay is known to you, is that there are practically only one or two classes of security in India which are available for strictly borrowing purposes under the terms of the constitution of the Presidency banks—that is, Government paper, and I am not sure, but someone here will know it, whether Port Trust debentures do not come within that too. At any rate, the security is confined to one or two classes, and there is nothing like the field that there is, of course, in England.

7112. I am suggesting that these securities should be widened; that is why I suggest an issue of that kind?—I do not see any objection to it.

7113. Perhaps you are aware that the Government of India now allow advances by the Presidency banks against the securities of Indian railways other than those guaranteed according to a schedule which is added to from time to time, so that those securities, especially if they were increased, would be available for this purpose. Perhaps you do not know that that is so?—I do not.

7114. With the view also of meeting that point of the Bengal Chamber of Commerce, would you recommend that the branch-line terms which are now given to railway companies with rupee capital should be extended to sterling capital?—Yes, I would.

7115. I understand that you are not in favour of a State bank or even of an amalgamation of the existing Presidency banks?—No.

7116. If such a bank were established, I suppose you consider the control of such a bank would naturally be in Calcutta, as being by far the largest trade centre and also having the largest population?—I do.

7117. It was for these reasons, was it not, that the Government of India decided to retain the office of Head Commissioner of the Paper Currency in Calcutta?—I believe it was.

7118. Do you think it would be possible to have the supreme control of such a bank, if set up, exercised from London?—No.

7119. It would be obvious, would it not, that men of high standing with Indian experience and the necessary leisure, could be more easily got together in London than in India?—It would.

7120. (*Mr. Keynes.*) You express a doubt as to the practicability of a central bank in so vast a country as India, because the different races have different forms and different ideas of banking: could you give some examples of the kind of differences of which you are thinking?—I am afraid I could not now, but I could if I had time to think it out. I think you would be able to collect evidence which would show that there are different forms of banking in Bombay, Calcutta and Madras, that the natives in these three Presidencies work upon different systems, that in some parts of the country they work pretty well by hundis or the exchange of paper, that in other parts they work more on silver and currency notes, and that in other parts, as I say in my memorandum more in the Western and Northern circle, there is a little gold in circulation.

7121. Is that the kind of difference you are thinking of—the difference between the comparative use of gold, notes, and silver, and in some places bills?—That had something to do with it, certainly; but what I was thinking of more was the different sets that you

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meet in those three Presidencies, and their very different ways of doing business.

7122. I can understand that there would be all sorts of little differences of that sort of which local boards would have to take account, but I was wondering whether there were differences of a kind which would in any way inconvenience a central board; clearly those you have mentioned would not, would they?—Not if you had on the central board men who were well versed in the different ways of doing business in all the Presidencies. But you must remember that India is a very large country.

7123. The point as to whether payments should be made in silver, gold, or notes, would not be one on which the central board would wish to have any particular views?—No.

7124. Are there any points which would necessarily come under the cognizance of the central board in which there are important differences between different localities?—I should think there were.

7125. Will you mention any?—I can mention nothing beyond the fact that I know that all the three different Presidencies have different ways of doing their own trade.

7126. But you cannot mention any precise point?—No, I cannot offhand.

7127. With regard to the Finance Committee of the India Office, you are aware of course that it is a Committee of the Secretary of State's Council?—That is so.

7128. And that the members of that Council have to advise on many important questions other than financial questions?—Yes.

7129. You think that no less than five out of the twelve members of the Secretary of State's Council should be persons of the kind of experience you have suggested?—I have stated five in my memorandum.

7130. The total number of members of the Council being twelve, I think?—I think that is so.

7131. You think that five out of twelve members of a Council who have to advise on matters of every sort should be persons of the kind you suggest?—I do not go so far as that. My point is this: I suggest that the Finance Committee of the India Office, whatever its size is, would be best serving its purpose by having one of each of these denominations, or perhaps having four out of these five, leaving out one in any way that was thought suitable. That is the combination that I consider would be the best able to deal with those questions.

7132. I can understand that that would be a good idea if the Committee was appointed purely for the purpose of financial advice; but that is not the existing system. Do you think that your proposal is compatible with the existing system?—I do not know whether it is or not. What I do know is that I consider that this is the foundation of a Committee that would best serve the India Office.

7133. You were thinking of the composition of a Committee appointed *ad hoc*, rather than of the sort of Committee which you could get by forming a Committee out of the members of a Council who are appointed for general purposes?—I do not quite understand.

7134. You were thinking rather of what sort of Committee you would appoint if you were appointing a Committee purely for financial purposes?—That is so.

7135. You were not thinking whether that was compatible with the other functions which the members of the Council have actually to perform?—That was not in my mind.

7136. (Sir Shapurji Broacha.) You agree with the recommendation made by the Bengal Chamber of Commerce that the Gold Standard Reserve should be held in London, and that at least 5 millions should be held in gold?—Yes.

7137. That was not the opinion of the Bengal Chamber of Commerce just after the exchange crisis. Does the Bengal Chamber of Commerce make that recommendation because it now thinks that half a loaf is better than no bread?—I think they have fully explained why they changed their opinion to a certain

extent. It was consequent on the change that was made.

7138. I will read to you a dispatch of the Government of India which is an echo of the opinion of the Bengal Chamber of Commerce. This is from a letter of the Government of India to the Secretary of State, No. 89, dated 1st April, 1909 (Appendix V., page 170, paragraph 7): "The point is one on which informed public opinion in India is singularly unanimous. We are frequently asked why we strain after interest on the Reserve which is the basis of our currency system, and consequently one of the chief pillars of the credit of India; and it is pointed out that other countries are careful to retain the ultimate foundation of their credit in bullion . . .

Moreover, we conceive that the position of the Government of India in the markets of the world would be much stronger as the possessor of a large store of liquid gold than as the possessor of a corresponding capital in Consols or similar securities. In the former case the Indian Government might in emergency be powerful to help the Indian market: in the latter there would always be the potential danger of their wishing to realise at an inconvenient season. We would therefore urge on your Lordship the propriety of building up a substantial share of the reserve in liquid gold, to be held under as nearly as possible the same conditions as the currency gold in London." They have changed their opinion since?—That is quite evident.

7139. What are the reasons for the change?—I am not prepared to state what the reason for their change is, but I am prepared to state that the recommendations which I place at the beginning of my memorandum express their opinion now.

7140. Did I understand you aright that you would rather lose the par of exchange than lose interest?—I do not think with 5 millions at present of liquid gold in the Gold Standard Reserve that there is any immediate danger of losing the par of exchange. You might get exceptional circumstances, as was pointed out, which might bring forward a difficulty; but it does not appeal to a business man or a business community that money should be locked up in liquid gold which does not bring forward any interest at all, when you have first-class securities which are as near an approximation to liquid gold as you can have, and they are earning interest.

7141. You say that now it is difficult to sell 10 millions of Consols?—I say it is at the moment; but the London market is in a peculiar position, as you know, and the reasons for it are very fairly well known to everybody.

7142. There is nothing wrong in India, and there is nothing wrong in this country; there has been no war, and yet you think that it might be difficult to sell 10 millions of gilt-edged securities. What would be the condition if we were involved in a big war, or if there was a famine?—I should like to say that my opinion was asked whether I thought there would be a difficulty; and speaking from my rather limited knowledge of the London market, I should say there would be a difficulty at the present moment, for reasons which, as I say, are pretty well known to everybody.

7143. And you are right?—Ordinarily there would be no difficulty in selling 10 millions.

7144. Do you expect a market when the bank rate is higher than 4½ per cent.?—We have had securities at a much higher level than they are to-day, with the bank rate higher than it is to-day.

7145. May we not have exceptional times of difficulty? Would you allow exchange to go to 1s. 3d. again, and let all the wealth of India be disturbed for a paltry amount of interest?—I do not think that we should prepare for ultra-exceptional times. The ordinary business man has got a certain amount of capital to work his business on, and he is not going to put that capital in a pot and seal it up and make no use of it.

7146. Is not Germany an ordinary business country, is not France an ordinary business country, and is

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not Russia an ordinary business country?—Undoubtedly.

7147. They do not deal commercially with their gold; they build up a large foundation of gold?—I am only prepared to give my opinion on it.

7148. And what you have stated is your opinion?—That is my opinion.

7149. (*Sir James Begbie.*) In the paragraph headed Gold Currency and Coinage (page 598) you describe India as a country accustomed to a silver coinage, but you also refer to the advance which has been made in the circulation of gold coins, especially in Western India. Do you know whether there has been a great increase in the active note circulation?—I do not know. I say that the advance in the circulation of gold coins in India has not been very rapid, and is confined chiefly to the northern and western circles.

7150. Can you tell me whether there has been a great increase in the figures for the various banks' clearing houses in India?—I believe there has, but I am not prepared to give you the figures.

7151. You have the fact that there has been a considerable increase in the note issue and a considerable increase in the use of cheques; would you not therefore say that India is gradually becoming accustomed to other forms of currency than silver?—Yes, I would.

7152. Do you think it is possible that the use of other forms of currency may be extended?—It is quite possible.

7153. You are not in favour of coining gold in India, because you think it is not required at present; do you look forward to its being required some time in the future?—It is very hard to say. There is no doubt that there has been an advance in the circulation of gold coins in India to a certain extent, but how far it has gone I am not prepared to say.

7154. You also object to the coining of gold because the process will be an expensive one?—Yes.

7155. The cost of coining a purely Indian coin would be less than the cost of coining sovereigns, would it not?—That I am not prepared to say.

7156. If gold were coined in India and had the effect of reducing the additions to the rupee circulation, could the cost of coining the gold not be set off against the saving there would be in the minting of rupees?—It might be.

7157. You also say that if the coining of gold in India is decided upon "it should be in the most convenient form, and that is a sovereign (page 598)." In the case of the silver coinage the coins provided are of the face value of 1 rupee, 8 annas, 4 annas, and 2 annas; would you say that these denominations suit the convenience of the Indian public?—Yes.

7158. In the case of the note issue the lower denominations have the face value of 5 rupees, 10 rupees, and 50 rupees; do you think that those denominations have been found convenient by the public?—I do.

7159. Would you say that a 15-rupee note would be a convenience to the public?—No.

7160. But you think a 15-rupee gold coin would be the most convenient value for a gold coin?—Yes, and I give the reason why I say so—because the sovereign has become an international sovereign. The sovereign is not a 15-rupee gold coin, but it is a coin worth 15 rupees; that is the standard which has been fixed for it.

7161. It is not a matter of convenience to the public?—No, not more so than notes.

7162. You also say that a 10-rupee gold coin would not be of any use for export; is it not the case that India exports uncoined gold regularly?—I understand that a 10-rupee gold coin would be of no use for export except as gold.

7163. But it could be exported?—It might be exported, I suppose, as gold.

7164. I asked the question because I understood you to say it would be of no use for export?—My opinion is that it would not be of any material use for export, on the supposition that the 10-rupee gold coin is being coined for circulation in India and for the convenience of the people of India. I do not take it that this 10-rupee gold coin would be one that would be

held up in large quantities like the sovereign, or that it would be treated on the same basis as the sovereign.

7165. Still it would be useful for exporting gold if you wanted to export gold?—It would be useful so far as its value is represented by gold; I cannot deny that.

7166. (*Chairman.*) If I rightly understood your meaning, you think that the 10-rupee gold piece when used for export would rank only as bullion?—That is all.

7167. But you think that the sovereign ranks as a coin?—That is so.

7168. (*Sir James Begbie.*) I want to ask you about your remark that a 10-rupee gold coin "would tend to destroy the standing of the sovereign"; do you mean the standing of the sovereign in the eyes of the Indian public?—Yes.

7169. Is there any evidence that the sovereign stands specially high in the estimation of the public in India?—Yes, I think there is. I think that the natives of India look upon the sovereign as a coin of value. It has a certain value, it has a certain standing—it is sentimental perhaps, but it has.

7170. Do you not think that they would look upon a 10-rupee Indian gold coin in the same way?—No, I do not think so.

7171. You also think that a 10-rupee gold coin would encourage hoarding?—I do.

7172. Do you think it is a great advantage to that portion of the India public who are given to hoarding to hoard up rupees rather than gold?—No. I meant to have added the word "ornaments" after "hoarding" in my memorandum, but I omitted to do so (page 598).

7173. Do you think the temptation to hoard gold is increased by an excess of rupees in circulation relatively to gold coins?—No, I do not think so.

7174. You are aware, I suppose, of the great demand for bar gold in India?—Yes.

7175. Do you see any objection to the continued issue of rupees on a large scale in the presence of that demand for bar gold?—Do you mean Government issuing more rupees and taking in bar gold?

7176. I mean the continued mintage of rupees, and the issue of rupees to the public, in the presence of the great demand for gold, which is evidenced by the demand for gold. Do you think it makes any difference?—No, I do not.

7177. Does it not come to this, that when Government issues rupees which are largely used to buy gold, the ultimate result is that India uses gold to buy silver for coinage which is largely converted back into gold?—I am not prepared to say that is the case.

7178. (*Mr. Gillan.*) I notice that in dealing with the question of Council Bills you refer to "the existing system, whereby the Secretary of State sells "Council Bills and transfers in excess of his needs" (page 598)?—Yes.

7179. We know that recently, having very large balances, the Secretary of State has brought home much more money than he wanted immediately; you do not mean that he should bring home money that he is not going to need at any time, do you?—No, I do not. What I mean is that I consider that as long as the Secretary of State sells bills and transfers to the extent of the full trade demand, that is, the balance of trade, there is no objection to it.

7180. But he must foresee some use for the money which he is bringing home by means of Council Bills, must he not? You would not propose that he should bring home money that he is not going to need ultimately at home, would you?—He has always got the gold value for the bills and the transfers that he sells. If the money is required out there by the trade, I do not see any objection to his selling to the full difference between the exports and the imports.

7181. If he brought home money in excess of his ultimate requirements, we will say, he would either have to keep that money here in England indefinitely, which I suppose no one would propose, or he would at sometime have to ship that back to India?—Yes.

7182. You would not propose that?—No, I would not.

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7183. So that he has really to look after his requirements, and to consider what is the best distribution of his balances between India and England?—That is it.

7184. Looking to his requirements and his interests?—Yes.

7185. And this advantage which is secured to trade is an incidental advantage in the course of his transactions?—Yes, that is so.

7186. With regard to the coinage of silver, you have expressed the wish that these purchases should be made more regular. With that of course the Government of India would agree. The difficulty, as the Chairman pointed out, I think, is that we have such extraordinary variations in the demand, so that the purchases, as I think you said in reply to the Chairman, could not be altogether regular, but there would be intermissions?—That is so.

7187. I want to put this to you as a practical question. At the end of the crisis, which the Chairman noticed in 1908-9, we finished up with a balance of 47 crores of rupees. I will ask you to take it from me that what we regard as a working balance is 18 crores; in that case you would not purchase silver when you had 47 crores in hand, would you?—No.

7188. At the end of 1909-10 we had 33 crores, still a very large excess. The time perhaps had not come then for a purchase of silver?—No.

7189. At the end of 1910-1 we still had 29 crores; would you have started purchasing silver then?—Not unless I saw some reason for it. There is not very much difference between the balance then and the balance in the previous year; it is only a difference of 4 crores. I would not necessarily have started then, unless I saw some reason ahead for it.

7190. At the end of 1911-2 we had only 18 crores, and, as you know, the Government of India at that time were making arrangements for the purchase of silver. I take it that on the whole all you mean is that we might have begun a little sooner than we did?—Exactly.

7191. But not very much sooner?—No, not very much sooner.

7192. About the question of the gold mint, there is one point that is not clear to me. You say the 10-rupee gold coin could not be of any use for export; is it not the general experience that gold coin of different kinds is exported from various countries merely as bullion?—As bullion it is exported. My intention was to say that "a departure to a 10-rupee gold coin would not in my opinion be a sound move as it would not be of any use for export" as against the sovereign.

7193. Then you say it would encourage hoarding; this was a point that Sir James Begbie put to you?—Yes, I do.

7194. I do not know that hoarding means more than, we will say, the retention in one's personal custody of one's savings or surplus; is that how it appears to you?—Yes.

7195. How would the mere constitution of the currency affect the amount of one's savings; do you think that it could add to the total amount in hoards?—My intended meaning was that this 10-rupee coin, being of a less value than the sovereign coin, would fall within the means of a great many more people in India to buy and hoard it or to use it as an ornament; that the fact of its being five rupees less purchasable value would make it easier for a certain class in India to buy for hoarding and ornamental purposes.

7196. That is to say, you would have a larger portion of your hoards in gold and less in silver than you have at present?—Yes; and in the same way in ornaments—they would substitute the 10-rupee gold piece for the present silver ornament.

7197. Would you agree that the sovereign is too large a unit for the great bulk of the ordinary payments which the Indian people have to make?—In itself, yes.

7198. I mean for purchases of grain or cloth or for any ordinary transactions of that kind?—Without the help of silver, of course it is.

7199. I mean in the actual payment of something they have bought it is very seldom that they would have to pay a sovereign?—Yes, I should say it is.

7200. I do not know if you would be able to answer this. Would you say that the same thing applied to what are larger and more important payments, that is to say, payments of rent? If a man has to pay his rent every six months, would you say that the bulk of those rents would be less than 15 rupees?—I am not prepared to say that. I have no experience of that.

7201. Would you say that there is a tendency for the sovereign to be more useful for hoarding purposes and less useful for payment purposes?—I would not like to say that either.

7202. Now about the State Bank. You say an institution of this kind is not necessary "at present"; what is the meaning of that qualification?—The qualification "at present" means that there are sufficient facilities at the moment to meet all the trade of India in the institutions that are in India. I do not think it is required; I think the Presidency Banks, the Exchange Banks, and the Indian Joint Stock Banks, are quite capable of financing the trade as they are now.

7203. You mean that an institution of this kind would not be required until the time, if that time ever comes, when the banking facilities of India are, for some reason, found to be inadequate?—That is so.

7204. You refer in the same connection to the paper currency; I think you said in answer to the Chairman, that you consider it has been well managed by the Government Department which runs it?—I do.

7205. What has been put to us is that our present paper currency system in India was based on the English system of 60 years ago; that that system has been left behind; that this country, by the development of the cheque and so on, and other countries, have developed newer systems; and that as a matter of fact this system is rather, even in India, out of date?—I do not agree with that.

7206. Supposing that some other system were substituted for it, on the analogy, we will say, of the French system or the German system, that is to say, a more commercial and less stereotyped system, would you agree in that case that it would be better run by a bank than by a Government?—I do not think so. Of course a great deal would depend upon what the system was. I consider that the present system of paper currency in India is well managed, and is very suitable for the country, and should be encouraged.

7207. What was in my mind was that the present system is a sort of cut-and-dried system; you have got so much in securities, and for the rest you have an actual deposit of coin against every note that goes out?—That is so.

7208. You might have a more elastic system in which the circulation of notes would be covered not only by the actual deposit of coin, but it might be by bills or by some other form of security; and in that case it seems that a bank would be more able to deal with it than a Government Department?—That would be so.

7209. Sir Ernest Cable, I think, asked you whether you do not think that a State Bank might attract more deposits; is it not possible that the prestige of Government would have that effect?—It is possible.

7210. I noticed, for instance, that the other day some of these co-operative societies in the United Provinces had at their district banks been given cash credits by the Allahabad Bank, but the natives felt that this Allahabad Bank, as they call it, was some sort of unknown institution in the background that they knew nothing about. Suppose they were told that they were being financed by a Sirkar Bank, would that not have given them more confidence?—Very likely.

7211. You refer to the difficulty of control in managing a central bank for India; is there not already an example of a very far-reaching institution in the Bank of Bengal which reaches from Bengal to Peshawar?—Yes.

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7212. Are there not great differences between Burma, Bengal, and the up-country districts?—There are different ways of dealing. I stated that it would be difficult to control, for the reason that it would have to control various parts of India with different customs and so on. To control efficiently an institution like that from one centre would, in my mind, be a very difficult thing indeed. As you say, the Bank of Bengal controls a good deal, but it would be infinitesimal compared to what you would require a State Bank, covering the whole of India, to control.

7213. Do you think that the Bank of Bengal must at present encounter difficulties of this kind, and that they would be extremely accentuated if you added on Bombay and Madras?—Yes, I do.

7214. (*Lord Kilbracken.*) With regard to your suggestion about the financial organisation and procedure of the India Office, I think I may take it that you have not specially studied the constitution of the India Office or the Acts of Parliament under which it is carried on?—That is so.

7215. In making your suggestion of the composition of the Finance Committee, what you mean is that you put that forward as a sort of ideal committee for advising the Secretary of State in financial matters?—That is my point.

7216. I suppose you base that suggestion upon your observation and knowledge of the way in which the Secretary of State deals with financial questions, and of the nature of the work that he undertakes to do?—That is so.

7217. You say that you wish to offer no criticism; but as it is part of the duty of this Commission—I do not know whether you are aware of this—to report on the system and practice of the India Office in dealing with the finances of India, I should like to ask you whether you, bearing that in mind, have any faults to find, or any suggestions to make, on that particular point?—None.

7218. You are satisfied with the way in which the work is done?—Yes.

7219. You think the Secretary of State does not undertake what he ought not to undertake, that he does not go beyond his proper sphere, and that he transacts his work in a business-like and efficient manner so far as you have noted?—I do.

7220. (*Sir Robert Chalmers.*) I should like to ask you a question or two on the subject of the metallic portion of the Gold Standard Reserve. If I caught your remark aright recently, you, speaking as a business man, said that an ordinary business man prepares against ordinary risks?—That is so.

7221. That is to say, if he happens to be a prudent man of business. There might be a difference, might there not, between the way in which a man of business engaged in commerce would deal with his liabilities, and the way in which a Government with permanent and longstanding liabilities might deal with their business?—There might.

7222. What I want to put to you, in order to get the benefit of your opinion on it, is the possibility of what might be the extreme strain to which the Gold Standard Reserve might be subjected. Shall we take two years of bad trade, famine, and so forth in India, and couple that with a crisis in the London money market; that you perhaps would agree is a fairly black prospect?—Yes, that is as dark as you can put it, I think.

7223. Would you not be disposed to agree that the maintenance of exchange is in financial matters the paramount duty of the Government of India?—It is.

7224. You would possibly agree so far as to say that there is this difference between an ordinary business man and the Government of India, that they should be prepared for the abnormal, the extraordinary risks?—Yes.

7225. They should lay down funds to meet their obligations, which they know is a very practical thing when they have the extreme strain?—Yes.

7226. Would it be your feeling as a man of business, looking at this particular form of business, that in order to be able to meet their liabilities and to discharge this paramount obligation, they might hold an amount of gold which would of course cause a loss of

interest, but that loss of interest would be well foregone in the discharge of their paramount obligation?—If such a severe test came, yes.

7227. Looking at it from the point of view of the Government, you would be prepared perhaps to take a line of rather greater caution than would be taken by a prudent man of business in discharging obligations not so extensive in time as those of the Government of India?—Yes, perhaps.

7228. That would mean a greater stock of metallic gold held in lieu of securities?—That would be the meaning of that, decidedly.

7229. (*Sir Shapurji Broacha.*) About the note issue; these notes are now issued by Government and the people have become accustomed to taking Government currency notes; they would not look with the same favour on notes which are issued by a bank, would they?—I do not think so—for a time, at all events.

7230. Having been accustomed to the Government guarantee, they would think the guarantee was reduced if the note were issued by a bank?—Yes.

7231. Would there be a greater facility of promoting the quick circulation of the notes if it remained in the hands of the Government than if they were issued in a bank's name?—I should say so.

7232. Mr. Gillan spoke to you about the plethora of rupees when we had 47 crores. Suppose that plethora was brought about, not in response to commerce but against the wish of the Government of India, by the Secretary of State pushing silver; and suppose that about 20 million crores less had been coined, which would have reduced the plethora of 47 crores to 27 crores; if you knew that the plethora of 47 crores was brought about by the action of the Secretary of State, would your opinion in favour of gradually buying silver remain the same?—Yes, it would.

7233. If you had to remit to this country 30 rupees, would you not rather remit two sovereigns than three 10-rupee pieces, because the sovereign in foreign countries would be of greater value than 10-rupee gold pieces?—I would rather remit the sovereigns than the 10-rupee gold pieces.

7234. Because the rupees would be of less value in this country?—Yes.

7235. They would be charged with the exchange and also with whatever it would cost to send them back to India?—Yes.

7236. (*Sir Robert Chalmers.*) Generally speaking, would your policy as regards the coinage of rupees be the very simple one of meeting the demand which trade and the population make?—Yes.

7237. (*Chairman.*) Sir James Begbie put to you the suggestion that the demand for bar gold in India was proof of a desire for gold currency by the people; do you think that the bar gold which is now taken in such large quantities is in any sense to be considered as currency?—No, I do not.

7238. Have you formed any opinion as to the extent to which it is used as merchandise, that is, for the arts?—No, I have not.

7239. Would you think that the bar gold is used mainly either for the arts or for hoarding?—I am not prepared to say, but I should think for both purposes.

7240. If no bar gold went in, and the equivalent amount of gold was sent to India in sovereigns, would it, in your opinion, result in the melting of a great many sovereigns back into bullion at once?—No.

7241. Do you think they would remain as sovereigns?—Yes, I do. I think that some portions of the hoards at present are in sovereigns.

7242. That answer seems to imply that bar gold is not much used for the arts?—I am not prepared to say whether it is or not.

7243. (*Lord Faber.*) Do you think that the delightful little bars of gold that we have been shown appeal more to the hoarding instinct of the Indian than the sovereign does?—Possibly.

7244. (*Chairman.*) In paragraph 4 of the letter of the Bengal Chamber of Commerce, page 602, they mention that they took exception to the formation, "in 1906, of what, until within the last few weeks, has been known as the silver branch of the Gold

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Mr. CHARLES CAMPBELL McLEOD.

[Continued.]

"Standard Reserve," and is now known, I think, as the Indian branch. They do not, as far as I have observed, develop that opinion. Do you take any objection to the Indian branch of the Gold Standard Reserve as at present constituted?—Do you mean as regards the 6 crores of rupees?

7245. Yes?—I would prefer to see it in the Paper Currency Reserve than in the Gold Standard Reserve.

7246. If in practical working it is found a convenience to have a small quantity of silver, such an amount as that in India in the Gold Standard Reserve, do you see any objection to it?—No.

7247. In paragraph 10 of the Chamber's letter, speaking of the practice of loaning balances and of the possibility of making loans in India, they say the great difficulty is the provision of the necessary security. They add, "That branch of the general cash balance which is held in India is also, like the India Office balances, greatly inflated at present. To suggest a satisfactory method of dealing with it is not easy. But the committee incline to the view that a partial solution might be found if transfers, from revenue to capital expenditure, were governed by principles somewhat less rigid than those that are understood to prevail in the finance department" (page 604). Could you tell me what the committee had in mind in that sentence?—I fancy it is railways.

7248. Could you explain to me a little more definitely?—The Indian community all over India—at Bombay, at Karachi, and at Calcutta—have been urging upon Government to give them more money for railway finance; and the Bengal Chamber of Commerce, observing that large balances are at present held by the India Office, think that they should be partly given out for capital expenditure, such as railways, without being so rigidly held. That, I think, is the correct meaning of it.

7249. It comes to this, that they think the surplus balances ought to be more immediately devoted to capital construction?—That is so.

7250. As regards the question of security for loans in India from the balances there, in the first place may I ask you whether, in your opinion, it would be desirable that on good security the Government should, as far as they can, lend money say to the Presidency banks in the busy season of the year in India?—I should say that it would be very desirable up to a certain point, provided they gave the Presidency banks a pull in the rate. At present they will only lend to the Presidency banks at the official bank rate, which I am afraid is not much use.

7251. To make it of use you feel that the banks must have some reward for handling the money?—Yes; I should say 1 per cent.

7252. Subject to that, do you think it would be an advantage to India if these balances could be put at the disposal of the money market in the busy season through the banks?—Yes, to a reasonable extent.

7253. It was suggested to us by a witness that if that were done, one result would be to enable the banks to hold a considerably larger amount of Government securities; do you think that would be so?—It might not be so in the busy season; it might be in the slack season.

7254. The suggestion that was made was that as they would be able to borrow against securities in the busy season, and as they would be glad to have that investment in the slack season, it would enable them to carry a larger amount of securities, because on the securities they could obtain the money they wanted to work their business in the busy season?—That is quite feasible I should think, and reasonable.

7255. That commends itself to you?—Yes, it does.

7256. Is there anything you would like to add to what you have said in answer to the questions put by the Commission?—I would like to add this on the question of Indian railway finance. I do not know whether I have made it quite clear in my evidence that it would be most desirable that Government should be prepared to state definitely that they would give a minimum sum of, say, 11 or 12 millions for a fixed period of three to five years, irrespective of what they would be prepared to allot during these years out of balances. That would enable those who are controlling the railways to make their programme in advance much more efficiently and economically. That is really my main point as regards the railways.

7257. When you say "irrespective of what they would be prepared to allot out of balances," does that mean out of the surpluses of revenue?—Yes.

7258. When you say irrespective of that, do you mean inclusive of it?—No. What I mean is, let us have a certainty for five years of 11 millions, then the railway boards can go to work upon that. Probably, the 11 millions is not sufficient, but the balances can be allotted annually without the fixed five years' period.

7259. Do you think that the Secretary of State could safely and wisely have borrowed much more for railway construction under the circumstances of the markets in recent years than he has done?—I do.

7260. Without injuriously affecting the credit of India?—Yes.

7261. (Lord Faber.) Do you think that the treatment, carried out with the utmost rigour according to the agreement, of the whole of the railway shareholders in the past has discouraged investors now to take up Indian railway loans?—No, I do not.

7262. You know to what I refer—the repayment of the Madras railway people at a certain exchange which was held to be very hard at the time; you do not think that interferes with it now?—I do not.

7263. (Sir Robert Chalmers.) People would realise that that was a business proposition?—Quite so. That has been forgotten.

The witness withdrew.

At the India Office, Whitehall, S.W.

SEVENTEENTH DAY.

Friday, 25th July, 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (Chairman).

LORD FABER.

LORD KILBRACKEN, G.C.B.

Sir ROBERT CHALMERS, K.C.B.

Sir ERNEST CABLE.

Sir SHAPURJI BURJORJI BROACHA.

Sir JAMES BEGBIE.

Mr. ROBERT WOODBURN GILLAN, C.S.I.

Mr. HENRY NEVILLE GLADSTONE.

Mr. JOHN MAYNARD KEYNES.

Mr. BASIL P. BLACKETT (Secretary).

Mr. MARSHALL F. REID, C.I.E., called and examined.

7264. (Chairman.) You have, I think, spent a large portion of your life in India?—Yes, 25 years.

7265. Would you tell me in what connection you have been there?—I have been working in connection

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Mr. MARSHALL F. REID, C.I.E.

[Continued.]

with the import and export business, and financing and managing cotton mills chiefly.

7266. Most of your time, I think, has been spent in Bombay?—Mostly in Bombay, but partly in Calcutta and partly in Madras.

7267. In the memorandum that you have submitted to us (*see* Appendix XXII., page 571) you draw attention to the size of the Government balances in India during the busy season. We have had it in evidence that the minimum working balance which the Government considers to be required is about 12 crores or 8 millions sterling, and that in order to be sure of having a balance of this amount in November, the Government aims at a balance of something over 18 crores or 12½ millions sterling on the 31st March. Do you think that 12 crores is too big for a minimum balance?—I am afraid I cannot express an opinion on that.

7268. May I take it on the whole that if you were assured that the Government of India had not arrived at that figure by guesswork, but that they had settled it after periodical re-examination of their requirements, you would not be inclined to challenge their decision?—That is so.

7269. Granted, then, that their view is right and that they require 12 crores in November, is it your view that they should find some means of making the extra 6 or 7 crores, which they accumulate from November to March, available for commerce during the busy season?—If it is wanted.

7270. Do you think that the trade of India would require large assistance?—It certainly would at such times as last year and the two previous years, and many others in my recollection.

7271. To what extent do you think, in round figures? Would the assistance they require reach such a figure as 3 crores?—It is very difficult to say. You would gradually feel the effect of money being taken off, and you would gradually feel the effect of it being put on. Our trouble is that it is taken off to such an extent that it seriously hampers our trade.

7272. Do you attribute the stringency, which I think occurs pretty regularly in the busy season, mainly to the fact of the activity of the Government in collecting their taxes at that moment?—I think it must always occur in India that you have stringency in the busy season. That cannot be avoided, I think.

7273. Even apart from the operations of Government?—Even apart from that.

7274. In your opinion, that stringency might be lessened, and it would be to the advantage of the trade to do so, if Government placed at the disposal of trade a portion of their balances?—Yes.

7275. Would you propose that they should lend to the Presidency banks?—I think they ought to have some system on which they lend. I do not think it is much good, unless you can rely on having the money at your disposal when you require it, and to the extent that you require it, as far as it is available.

7276. In what way do you think Government should make it available? Should they lend to the Presidency banks only, or to all banks, or to private borrowers?—My view is that they should have an organisation to which they should lend, or in which they should place their available funds for the use of the country.

7277. You mean a central banking institution?—Yes, practically that.

7278. Would you propose that they should lend to that institution without security, or simply deposit their balances with them, or that they should take security?—They would not require security, I think, if the bank were strong enough—that would be the security—and if they exercised control over the management and direction of the bank.

7279. Is the kind of institution which you contemplate a semi-Government financial institution?—Yes, certainly, with a good deal of Government control over it.

7280. That raises the question of a State bank, and I will return to that later. Suppose that the Commission did not recommend, or did not find it desirable to adopt the proposal for, a State bank, would you still consider it advisable that the Govern-

ment should lend out its balances in the busy season?—I think so.

7281. In that case, would you propose that they should lend to the Presidency banks?—Yes.

7282. Would you in that case ask the banks for security?—If Government were not satisfied with the banks' position, which they control very largely by the Banks' Act.

7283. You are, of course, aware that the Presidency banks have considerable Government balances under present circumstances?—Yes, they have.

7284. It might be, without in any way casting reflections on the security or stability of the institution, that any further sum should be required to be covered by securities?—That might be so.

7285. You do not hold a strong opinion, I gather, either way on it?—No.

7286. In so far as the sale of Council Bills has been carried on, does not that tend to release these balances for the benefit of the public?—It does.

7287. Do you think that the relief reaches the internal trade of India, or is it mainly confined to the export trade?—It can only reach the internal trade through those who have access to the London market.

7288. Do you think that through them it does reach the internal trade?—Yes.

7289. How far do you think the money reaches in the internal trade of India; does it go into the hands of the natives?—It passes from the banks into the hands of the native *shroffs*, as they are called.

7290. (*Sir Robert Chalmers.*) Would the *mahajans*, the native bankers, get the money?—Yes.

7291. (*Chairman.*) You are familiar with the system of reserve treasuries in India, I presume?—Yes, to some extent.

7292. Do you suggest that it would be well to close them, and to hand over all the balances in them to some financial institution?—Do you mean to say hand them over absolutely free?

7293. Not necessarily, but to make use of the branches of a bank or banks in place of maintaining official treasuries?—I think the reserve should be maintained very strictly.

7294. I am not speaking of the reserve in the sense of the Gold Standard Reserve or the Paper Currency Reserve; I am speaking of the reserve treasuries?—Where Government holds amounts which they think they will require?

7295. Yes. Do you think that if there were a central institution it would be possible for the Government to close the reserve treasuries, and to depend upon the banks to do what is in effect their banking in the different centres?—I think it would, very largely.

7296. The Government has offered, on certain conditions, to make loans to the Presidency banks at busy times even now, but those offers have not been taken advantage of; do you know why?—I was not aware of that. I understood they had refused to lend to individuals on security; that is all I have heard.

7297. It may be a question of the terms. You said just now that, in order to make this proposal work, it would be desirable that it should be placed upon a systematic basis, and that trade should be able to count upon that assistance, I think?—Yes.

7298. Have you reflected what might happen if that had been done, and for four or five years such assistance had been rendered in the busy season, and then, owing to adverse circumstances, the failure of the revenue, or very large expenditure, the Government was unable to give that assistance in a particular year?—If the Government had not the funds available, there would be no point in asking them for it.

7299. What has been suggested to us is that trade might come to count upon that assistance, and that when it failed in a bad year, the last state of trade would be worse than the first?—I am afraid we always count on a good many things which are dependent on other circumstances.

7300. In saying that you ought to be able to count upon that assistance, you recognise, do you not, that there might be times when the Indian Government could not give it?—Certainly.

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[Continued.]

7301. There is another point which has been put to us. What do you take to be the busy months of the year in which this trade demand arises?—I think in Bengal about October to December; in the west about January to March.

7302. It has been suggested to us that Government has no surplus balance to speak of until about the middle of January?—That might be so sometimes.

7303. In that case the relief which they could give would be partial?—Yes.

7304. I presume that, provided the relief be given, you would not mind very much from what source the funds were derived?—No.

7305. Have you ever thought whether they might be advantageously drawn from the currency reserve by some increase of the fiduciary portion, instead of from the Treasury balances?—I have not considered that.

7306. A suggestion has been made to us that the fiduciary portion of the note issue might be raised, and that the whole of the amount allowed to be in a fiduciary position should not be permanently invested, but that a portion of it should be kept for loaning out on security in the busy season; would that meet your view?—I am afraid I have not considered that point at all.

7307. You say in section A., paragraph 12 (page 572), it is remarkable "that the balances and currency of India should be under the control of authorities in India and London who may be said to be almost isolated from the money markets, and the chief commercial centres of India." Where do you think the control ought to be placed?—I think it ought to be in the market itself—in the money markets and the commercial centres.

7308. Can you translate that into practical measures for me?—We come back to this State bank question again.

7309. I suppose Calcutta would be the chief financial centre of India, would it not?—Calcutta and Bombay are both very large centres.

7310. But you must have your head office in one or the other?—Probably, yes.

7311. In the past the control has practically been centred in Calcutta?—It has been.

7312. Merely as a matter of geography you could not use a better place?—I do not suppose you could.

7313. It is not in your mind, supposing the Government of India had remained at Calcutta, that the Finance Department ought to have been centred elsewhere in order to be in closer touch with banking and commercial centres?—No.

7314. Now I come to the question of a central bank. Will you tell me shortly why you make the proposal to have such a bank; what are the advantages which you think India would derive from it?—In the first place, the control of the finances would be in the commercial centres, where the money is wanted and where large financial operations take place. They would control the balances and the reserves, and make them available, as far as might be desirable, to trade. No doubt they would guide the people as to the best form of currency they ought to use, and, if it were paper currency, they would take steps to popularise it. I think it must be recognised that the conditions in India have changed a good deal of late, and that we are coming in one way to rather a critical stage. The people have become very much wealthier during the last few years, and they are beginning to learn to use their wealth. I do not suppose at any time they wanted more guidance in that matter than they do at present.

7315. Do you think that they would get the guidance better from a central institution than they do at the present time from the Presidency and joint stock banks?—Certainly I think so.

7316. For what reason?—It is nobody's particular interest to teach them now.

7317. What you want to teach them, I suppose, would be to bring their money out of the hoards?—That is so.

7318. And to turn it to profitable uses through the banks?—Yes.

7319. Is not that very much the interest of the existing institutions?—It may be their interest, but I do not think it is one of their avowed objects.

7320. India is a very big country, is it not?—Yes.

7321. *Primâ facie* I should have supposed that, with all these varying circumstances in the different parts, local institutions would be more likely to get at the people than one great central bank?—But I think you could use your local institutions equally well under central control.

7322. You say in your memorandum that you do not propose to attempt to construct the organisation; but I want to press you a little to help us in that matter. Do you suggest that the three Presidency banks should be amalgamated?—Yes.

7323. It is not an entirely new institution that you suggest should be superimposed on them?—No.

7324. But they are to be amalgamated as the foundation of a new one?—Yes.

7325. What sort of capital do you think such an institution ought to possess?—Their capital and reserves at present seem to be sufficient for their purposes. I do not think I can go beyond that.

7326. Therefore, in proposing a central bank, it is not with a view of increasing the banking capital of India, but in order to make the best use of the capital which now exists?—That is so.

7327. I suppose you contemplate that they would have local boards in the different Presidencies?—Local boards, very much with the same powers and the same duties as they have now in each Presidency bank.

7328. With a central board somewhere advising the whole?—Yes.

7329. Where would you think of placing the central board?—One would like to have the constitution of the central board such as would represent the whole country as far as possible. That being so, I do not think it matters very much for what reasons you choose any particular place, so long as this is effected.

7330. In order to make the central board representative of the whole of India, you would have to take men in close touch, I suppose, with the trade and business of places very remote from one another?—You would.

7331. Wherever you put the head office of the bank, could you, in the circumstances of India, find directors who possess the local knowledge which you have made a condition, and yet who could afford to give the time to come to that centre whenever wanted?—I am afraid I regard the directors as not nearly so important as the executive; and therefore, if the directors could be kept in touch with the executive, I think that a great deal could be done in the way of letting the board represent the whole country.

7332. You do not contemplate in fact that the board would meet weekly, or anything of that kind?—No.

7333. The real management and control would be in the hands of certain executive officers?—Certainly.

7334. The general managers?—Certainly.

7335. You propose, I think you told me, to give to the bank the management of the currency; would you entrust them with the management of the sale of Council Drafts?—Yes.

7336. Would you allow them to deal in exchange generally?—No.

7337. Would you give them a London office?—Yes.

7338. Would they have the whole of the Government balances?—Yes.

7339. Do you think that a bank which was formed merely by the amalgamation of the capital and reserves of the existing Presidency banks would be of such strength as to justify the Government entrusting it, without security, with such a very large sum?—I have said that I have rather an open mind on that. All I say at present is that the banks' funds are sufficient for their requirements.

7340. Do you contemplate that the Government would have any control over the operations of this bank?—They would certainly have some, but I think their main control would be perhaps in nominating all the directors of the central board, and possibly the managers of the branches.

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[Continued.]

7341. Do you think that the Government should nominate the directors of the central board?—Certainly.

7342. Not that the shareholders should?—No. If the Government are going to put their funds to such an extent into the hands of a bank, I think the Government should have the right to nominate the men who will be the controllers of that bank.

7343. In that case you will agree with me that the responsibility of the Government will be very heavy. If they nominate the directors who have the supreme control of the bank, the Government will in fact be themselves responsible for the safety and security of the bank?—They have got all their funds in the bank. I think Government are quite capable of taking the responsibility, and of carrying it out exceedingly well.

7344. If the Government is to play so large a part in the institution you contemplate as you have just described, is there a very great difference in fact between what they have to do now and what they will have to do then?—I think the difference is very great, because the people who control the finances at present, we, as merchants, never see, and we are not in touch with them.

7345. Would not the real difference be that the Government would be working through bank managers instead of through officers of the Finance Department?—On the spot, yes.

7346. I suggest to you that it even comes to this, that the managers of the bank would in fact be Government officials, though possibly trained in a different way, and no doubt entering the service through a different door. To all intents and purposes the men on whom the real practical responsibility would rest would be as much Government officials and as much responsible to the Government of India as the members of the Finance Department are now, would they not?—No, I think not.

7347. The directors of the bank would be nominated by the Government?—The Government would nominate to the central board.

7348. The control of the managers would be entrusted to the central board so nominated?—That is so.

7349. And the managers would act under the supervision and instruction, as far as given, of that central board?—The local managers would.

7350. And even the head manager, would he not?—I take it he would be one of the board, and a very important member of the board.

7351. Then in that case, the head manager or managers would also be nominated by the Government if he or they were members of the central board?—Certainly.

7352. Except in name, what would be the difference between their position and that of a Government official?—The manager of a bank would be absolutely independent. He would be working with his colleagues who were nominated by, but who were not under the orders of, the Government.

7353. But the Government could displace him at any moment subject to any agreement that was made, could they not?—Yes.

7354. If the Government were dissatisfied with a manager, that dissatisfaction would find expression by the nominees of the Government on the central board?—Yes.

7355. Who would remove the manager?—Presumably.

7356. Why I am pressing you on this is because it has been put to us that, if there was any advantage in a central bank, the first and greatest advantage would be that it would relieve the Government of much of its present responsibility; but the organisation which you sketch seems to me to leave the Government at one or two removes still responsible for the management of the currency, for the sale of Council Bills and Drafts, and for the management of their balances; and to superimpose upon that responsibility a responsibility for all the ordinary banking business of India?—I do not think I quite regard it in that way. I think, having appointed them, they then do the work.

7357. I am going to take what is, I hope, an unlikely supposition. Suppose they managed the bank rashly

and landed it in difficulties, could the Government of India be indifferent to what would befall such a bank?—Certainly not.

7358. The people of India would look to them to maintain the bank?—Certainly.

7359. Do you think it would be regarded by those who have entrusted deposits to it, or who are otherwise its creditors, as having a sort of State guarantee behind it?—I do not think so.

7360. I think you do agree that at any rate it would be so intimately associated with Government that Government could not allow it to pay the penalty of its own mismanagement?—In the Government's own interest, yes.

7361. I think you did say to me that, provided there were local boards, the local interests would not suffer through the centralisation of the supreme power in a single place?—On the contrary, I think they would benefit, because they would have a direct officer to go to always available, instead of having to approach an officer of Government who might or might not be available.

7362. You told me that in your opinion this bank ought to have a London office: would you propose that the London balances of the Secretary of State should be kept with this London office?—I think they would be under the control of the bank in India. They would place them wherever they thought desirable and expedient.

7363. As regards the management of the balances generally, apart from your desire to see them entrusted to a central bank and made available in that way for trade, have you any criticisms to make on the recent action of the Government of India or the Secretary of State?—No.

7364. Turning now to the Gold Standard Reserve, I think you approve of the establishment of that reserve?—Yes.

7365. But you think that the measures taken up to date have not gained public confidence?—That is so.

7366. And that you attribute in part to the experience of 1907 and 1908?—I do.

7367. In section B., paragraph 5 (page 573), you speak "of the uncertainty as to whether the authorities would take the steps they eventually did to maintain the exchange level at that time": what do you refer to specifically there?—They agreed to draw bills on London at 1s. 3 $\frac{3}{4}$ d. I think the notice agreeing to that is dated March, 1908.

7368. At that time the Government of India and the Secretary of State were dealing with certain conditions, as it were, unfamiliar to them, were they not?—They were.

7369. Do you think there is still uncertainty as to whether they would use all their resources now to maintain exchange if exchange was threatened?—I think they would use their resources. They always intended to use their resources, and they thought their general resources were strong enough.

7370. May I take it that you yourself do not share the suspicion that "the maintenance of exchange is at times subordinated to other interests," though you feel that other people, or the Indian public generally, are not absolutely convinced that it is not so?—I am not convinced.

7371. You agree that it is probable that they would use all their resources for the maintenance of exchange?—But they might cause very heavy loss to us all before they did so.

7372. By acting too late, do you mean?—Yes.

7373. Will you tell me what you mean by "the suspicion which undoubtedly exists that the maintenance of exchange is at times subordinated to other interest in the handling of Council Drafts"?—Shall I take a specific instance?

7374. If you please?—Rightly or wrongly, the general view which one has heard expressed in Bombay this year when Councils were being sold in very large quantities and very much in excess of the Budget, was that they were not being sold with any idea of the maintenance of exchange, but that they were being sold rather in disregard of exchange.

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7375. The Secretary of State had large sums which he wanted to transfer over here?—Yes.

7376. Do you think he was wrong to transfer them?—We are getting on to rather another point.

7377. Do you mind answering that question? I will put it to you rather differently, as perhaps you do not quite see what I am pointing to. The Secretary of State has a continuous need for new capital for development purposes in India, and a large portion of the expenditure is incurred in England for railway material and so forth?—That is so.

7378. If he has unexpectedly large surpluses in India, can he use them better than by bringing them home to meet that expenditure?—If he has definite expenditure in view he cannot.

7379. Even if he has not at the moment definite expenditure in view, but foresees that his future requirements will be large, does he not act wisely if he brings the money over when he can?—He does.

7380. Then I do not quite see why you criticise him for having sold Council Drafts freely when the money was available in India, in order that he might bring it to this side for future use in that way?—Is there any reason to suppose that he did urgently require money then, and could not equally well bring it home later on? I have not got before me the figure of his gold balances.

7381. Would your criticisms be met, do you think, if it were possible to put the management of the Gold Standard Reserve under statutory conditions?—I think it would be better on the whole.

7382. In such a case, what are the kind of conditions that you would like to see laid down so as to insure the confidence of the Indian public in the management of the reserve?—I should like a certain proportion in gold, and I do not mind how large a proportion in short loans and such things in London. I have no definite idea as to the proportion.

7383. In mentioning those two forms in which the reserve might be held, do you desire to exclude the Secretary of State from holding securities without any time for repayment?—I distinguish between the two.

7384. In the meantime you are anxious that the whole profit of the rupee coinage should go to the Gold Standard Reserve?—That is the ideal.

7385. On the subject of gold coinage and the opening of a gold mint, I think you do not yourself favour either of those proposals?—That is so.

7386. I gather from your memorandum that your view is that gold coinage is wasteful compared with other methods of currency?—That is so.

7387. And that gold in reserve is much more effective for the maintenance of exchange than gold in circulation?—Yes.

7388. Do you think that in a time of crisis gold would come out from the hoards to support exchange?—I think it would be the very last thing to come out, because it is the one they would hang on to longest as being the best.

7389. You yourself suggest to us that some serious attempt should be made to attract the mass of unproductive wealth from its hiding places?—Yes.

7390. That would no doubt be a very desirable thing to do; but what have you in your mind as the steps which the Government might take? Is it anything more than the belief that you have already expressed that the establishment of a central bank would educate the people?—I think the effect of the organisation of a State bank would be to teach the people to bring out their money and to use their money.

7391. I suppose in many cases these hoards are held by people who are too far away from any bank, or any place where a bank is likely to come, for a bank to take the place of a hoard with them?—The treasuries are pretty widespread over the country. I do not think there is any place in India that is inaccessible.

7392. I think you suggest something might be done by raising the limit for Savings Bank deposits?—I have since learnt that that has recently been done.

• 7393. And you do not suggest that it should be carried further?—I think not at present; it has been raised considerably.

7394. (Mr. Gillan.) Are you referring to the raising to 500 rupees?—Yes, in 1912 I think, when it was raised to that from, I believe, 200 rupees.

7395. (Chairman.) Now I come again to a question which I touched upon just now in another connection. In section D., paragraph 12 (page 576), you criticise the practice which has recently been resorted to of providing for railway capital expenditure from revenue, or from accumulated cash balances which, as you say, is practically the same thing. I do not quite follow your objection there: do you agree that India can hardly have too much railway development?—I do.

7396. And that it is desirable that the authorities should devote as much money as they can to pressing that development forward?—Yes.

7397. I suppose you would like to see the Indian Government and the Secretary of State adopt and carry through a steady policy of development?—Yes.

7398. Irrespective of the fluctuations in the Budget?—That is the whole point.

7399. Supposing they had done that, and had then got an unforeseen surplus of, let us say, 2 millions, could they spend that surplus better than in relief of borrowing for capital expenditure or in increased capital expenditure?—For relief of borrowing?

7400. Yes, I will put it in either of two ways: Suppose you had a programme of 10 millions a year, suppose that of that you hoped to carry through half out of revenue and that half remained to borrow—I am merely taking these figures for illustration—then in a given year you find you have got a surplus of 2 millions, and the question arises what should be done with that. You might in that year carry out a programme of 12 millions instead of 10, or you might borrow 3 millions instead of 5?—I would borrow 3 millions instead of 5. You cannot change your programme, I fancy, during the year.

7401. You might keep the money in your balances for that year, with the hope of spending it as an addition to the 10 millions of the next year?—You might.

7402. Would you object to that?—No, I would not object to that.

7403. Provided that they are unforeseen windfalls, and provided that they are made available as rapidly as possible for railway construction, you would not criticise that policy?—No.

7404. The essence of your criticism is that there should be a definite programme which should be irrespective of the fluctuations of the Budget?—That is my point.

7405. Do you think that more money could be raised in India for capital purposes than has been raised in past years?—I think so, certainly.

7406. Would you raise it in rupee securities?—Yes.

7407. In your memorandum you suggest the issue of railway bonds: I am not quite certain whether you mean short-dated bonds?—No; I mean the ordinary debentures, or such like.

7408. How much money do you think you could get in India for these purposes?—There is no end to the amount on which we could count.

7409. At what rate of interest?—If they go on getting wealthy as they are doing, I do not know how low you will get it.

7410. Who are the people who will take such loans as are now issued?—Very largely, to begin with, the Presidency banks, but increasingly up-country, I consider.

7411. You think they will be taken by the Presidency banks or other banking institutions in the first instance; then will they be passed on to the small people or will they be passed on only to the big people, do you think?—I have no very definite information, but I gather that they will be passed on to both small and large.

7412. Do you think there is a growing tendency on the part of the Indian people to hold securities of that kind?—I believe so, and I believe there is an enormous amount of money that will be available if can be got at.

7413. Do I understand you to think that it would be possible, with more activity perhaps I should say in

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advertising, to induce a good deal of money to come out of the hoards, and to come into securities of that kind?—I think a very great deal.

7414. We have it in evidence from one witness that both the Mohammedan and Hindu laws of succession and customs, for different reasons, cause a good deal of gold to be hoarded?—I have no experience of that.

7415. Do you desire to recommend the creation of any new class of securities in India differing from the rupee securities that have been issued in the past?—Possibly; but it is a very complicated subject, which one could not express an opinion on without a great deal of enquiry.

7416. You would like to leave that to the managers of the State bank?—Yes.

7417. (*Lord Faber.*) Referring again for one moment to the central bank; if a central bank is formed, and that bank makes use of large Government balances, at present, at any rate, that bank must be practically a Government bank, and, therefore, would not relieve Government officials of their great responsibility, would it?—I hold that, having transferred the management of the bank to officers whom they approve, Government would then have fulfilled its duty.

7418. The officers would be really officers of Government, and not officers of the bank, would they not?—They would be officers of the bank nominated by Government.

7419. But the Government would be the central figure, because the Government would supply a great deal of the money?—Yes; and that is why I say they must nominate—because they supply the money.

7420. The difficulty, as the Chairman has said, is to many of us that, although we perhaps should like to relieve the Government of what may be more properly called banking business, at present we think that the preponderating influence of the Government money is so great that we cannot give them that relief. Is that your opinion? Apparently you think the Government can be divested of authority although the Government would find most of the money?—Yes.

7421. Do you think that when the country advances further and becomes richer, the Government balances may not be such a preponderating influence, and then the Government supervision would not be so necessary? What is your opinion of that? This is a growing country, is it not?—Very much so.

7422. Therefore, I say once more that when you get the condition of things that the Government money is not a preponderating force, then you may get outside commercial aid which at present you cannot get. At the moment a central bank would be practically a Government bank, would it not?—To some extent.

7423. In answer to the Chairman just now you made an interesting statement to the effect that you thought railway debenture bonds would be greedily taken up in India?—I think they would.

7424. Do you think that, as the Chairman said, the way to get at the hoarded wealth of the country is to offer the public railway bonds at a fair rate?—I think so. They have shown already in the way they have taken feeder railway shares that they do like that sort of investment. One small company was oversubscribed before it actually asked for subscribers.

7425. (*Sir Robert Chalmers.*) What would be the relation, in your opinion, between the resources of the bunnia and the money market in India? Is there any relation; if so, is it a close relation, or how would your experience lead you to explain it? Does he borrow from the Indian money market as we have been speaking of it?—He borrows, I think, from the bank. The bunnias go to the bank to get their finance, which they then spread up-country.

7426. It is from the European money market that some part of their funds come?—I think so, largely.

7427. Do the rates they charge bear any reference or resemblance to the rates they pay?—That is largely a matter of to whom you lend, is it not? The rate depends on the borrower a good deal. To a good borrower, I suppose, they would charge, perhaps, 1 per cent. more than they can borrow at, and to a bad

borrower, perhaps, 5 or 10 per cent. more than they can borrow at.

7428. Do you think it is within those limits, and do you think there is really an intimate relation between what I may call the native market and the European market for money?—Yes; but the substantial borrowers are not very numerous, and, therefore, the rate in the bazaar generally is high.

7429. Coming now to the question of the State bank, is there any movement on the part of the Presidency banks to be amalgamated?—Not that I know of.

7430. Do the public clamour for it?—The matter really had not been raised before I left India. I left India in April last, and I have heard nothing of it since then.

7431. (*Sir Ernest Cable.*) Did I understand you to say that the bunnia would actually charge the ryot only about 1 or 2 per cent. more than he pays to the shroff?—I said up to 10 per cent. more in the case of the bad borrower, or even more.

7432. Is it not the fact that at the present time the ryot has to pay about 25 per cent. to 30 per cent. for his money?—I should not wonder.

7433. In view of this, do you think that a State bank would relieve the situation? Do you think that, by financing agricultural societies and so forth, it might be a benefit to agriculture and to the country at large?—Yes; and it would make money circulate more freely, through having branches up-country where the treasuries are now.

7434. You spoke about educating the people: do you mean by that that a State bank would educate the people in the use of notes and cheques? Are you thinking of the ryot?—The ryot, if he had any money, and the rather better class, the small trader for instance.

7435. You said just now in reply to a question of Lord Faber's that you thought any amount of money could be borrowed in India; would that be the case at the present rate of interest, $3\frac{1}{2}$ per cent.?— $3\frac{1}{2}$ per cent. or 4 per cent.

7436. You said that increased borrowing would bring out the hoards; you expected that the hoards would come out more and more in response to these loans?—The loans are not there. If the people were taught that they could get good security, they would then lend on that good security and make money thereby. That is my view.

7437. The hoards that you have referred to, I imagine, are the hoards held by the princes, not by the peasants?—I think all the hoards—princes' and peasants', workmen's, and everyone who has got a few sovereigns, or who has got his gold ornaments, or who has got his rupees or currency notes. It would be a good thing if they were taught, or had a chance of learning, how to utilise their funds.

7438. With a view to this, I suppose it would be a very good thing if the denominations of the present Government paper were made smaller?—Yes.

7439. That would be a useful suggestion from your point of view?—Yes.

7440. You made some remarks in answer to the Chairman, with whom I think you agreed, to the effect that the Government would be responsible for the central bank?—In the event—

7441. In the event of disaster I think you said the Government would be responsible?—I think the Government of the country is more or less responsible, is it not, to keep itself and banking concerns together. It would be no greater responsibility.

7442. (*Sir Robert Chalmers.*) Do you affirm that about this country—that the Government is responsible for the Bank of England?—I am not a banker.

7443. (*Sir Ernest Cable.*) In every country where there is a State bank the Government is very much interested in the welfare of the bank, of course?—Very much.

7444. So it is not a novel position?—No; the prosperity of the country is involved in the bank.

7445. And the Government of India are also involved in various other undertakings, such as the port trusts. In these cases, I think the Government,

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although there is no actual responsibility, still have a moral responsibility, and they could not possibly allow any port trust to come to grief?—Quite so.

7446. They have the same responsibility in various similar undertakings?—Quite so.

7447. With regard to the situation of the bank, I think you said that Calcutta ought to be the place. Supposing there were very great local jealousies to be overcome between the various Presidencies, would you see any objection to the head office or the head directorate being in some neutral centre?—It must be in a commercial centre.

7448. Do you think it must be in a commercial centre if each of the local boards had as full powers to carry on as existing boards enjoy, let us say?—Yes; otherwise I think it would be out of touch with the markets, which is the whole point.

7449. You want the central board also to be in touch with the market?—Certainly. If a difficult situation arose, you want at once to communicate with your manager, and get his decision at once.

7450. Let us take the present boards in each of the Presidencies. Supposing they were continued with the addition of one Government officer on each board, for example, the Accountant-general of each Presidency: that would secure Government supervision at each of those branches, would it not?—I do not think Government need worry much about the local boards. Boards would have certain statements put before them and certain matters referred to them, but the management would be in the hands of the manager, who would, according to my view, if he were the manager of a local branch, have been appointed with the Government's approval, anyhow.

7451. The central board might be composed, let us say, of a chairman, who might be an English banker of eminence who would be attracted by a large salary and assisted by a managing director, who might be promoted from one of the branches in the meantime. Associated with them might be the Financial Secretary. That would give you the Government atmosphere that you suggest, would it not?—That would.

7452. And it would not be a preponderating influence. If that central board travelled from Presidency to Presidency from time to time, much as the present Minister of Finance and Commerce does, would that not meet your view that it should be in touch with commerce? The central board could travel from their central office, wherever it might be, once or twice every month round the presidencies?—I think that would be rather difficult, and rather a waste of their time.

7453. The present Minister of Commerce travels a good deal, does he not? He keeps in touch with the whole trade of the country by travelling?—Yes, he travels round like that. I do not think they would require to travel if they had their main office in one place. They would work from there, and when the busy season was over in Calcutta they could go to Bombay, and stay there during part of January to March, and then go to Madras, and so on.

7454. I was only trying to get over the difficulty, which, of course, will be inevitable in making this amalgamation, that there may be local jealousies as to where the head office may be situated?—I think they will pass over in a year or two. I should hardly bother about the local jealousies if you are going to run a bank for the sake of India.

7455. (Mr. Keynes.) The principal criticism that we have heard against the central bank is the difficulty of getting suitable directors; and, secondly, the difficulty of adapting the practice of the central institution to the needs of the localities. I should like to take the second of these points first. You favour, I think, local boards?—Yes.

7456. You are a director of the Bank of Bombay now, are you not?—I was till I left India.

7457. So that you know what functions the board of a Presidency bank actually performs?—I do.

7458. Would your new local boards differ substantially from the present boards of directors?—I should say in no respect whatever.

7459. Could you tell us a little more about what the functions of the boards are in relation to the

executive? Do they actively interfere, or are they rather channels of commercial communication?—I suppose the main functions of the directors are consultation and general supervision. They consider and discuss the various statements and questions which are submitted in ordinary course; they advise on points brought up by the executive, and inquire as may be necessary into matters affecting the policy and business of the bank. But it is not a part of their business to interfere in the daily work of the bank's executive.

7460. If there were to be a central bank, you do not see any reason why the local boards should behave any differently from what they do now?—No.

7461. Who would appoint the local boards?—If you had public shareholders I should think they would want to have some voice in the appointment. My suggestion would be that all shareholders who wanted to vote for directors should register in a certain district, and that they should appoint the directors for that district; that is to say, if you had some 500 shareholders in the Bombay Presidency, they would vote for the Bombay directors; and so on in Bengal, and so on in Madras.

7462. It was that which you had in your mind when, in answer to the Chairman, you said that local boards should be appointed by the shareholders, but the central board would be wholly nominated by Government and would have overruling powers?—That is my idea; but you would not expect a central board to interfere with the local working of the bank, except on broad principles.

7463. Would this central board which is nominated by the Government include commercial people or not?—If possible it would include one or two.

7464. Would it be a small board or a large board?—A small board, I should say.

7465. With a small number of Government representatives and a small number of commercial representatives?—Perhaps five—two Government representatives and three traders.

7466. With what sort of questions would it chiefly concern itself, as distinct from the local boards?—It would have to deal with the currency generally. A point I make a great deal of is the education of the people as to currency, and the working out of the policy that should be pursued in the different branches in regard to these matters. Of course it would have to lay down to what extent the banks should be interested in any particular industry or any particular investment; and I presume it would have to deal with the funds of the bank as regards movements to London and backwards.

7467. Would it have a bank rate policy for the whole of India?—I am afraid I do not understand the expression.

7468. Would it determine what sort of bank rate ought to be established at different times all over India and aim at making this effective; would it do that?—It would do that, but it would not necessarily be the same rate in every town.

7469. I suppose that the central or head office would have no direct dealing with the public at all?—No.

7470. It would merely be the seat of authority over the local offices?—That is so.

7471. So the actual locality of the head office, so far as the public is concerned, would be of no importance?—No, excepting that it should be in a large centre.

7472. The chief importance of where it is located would lie in the fact that if it is at Calcutta it would be rather difficult for Bombay people to be there, and *vice versa*?—Yes.

7473. If you had a head office which has no direct dealings with the public, but is merely a ruling authority, would it be difficult, do you think, for it to move about?—I think it might be very inconvenient to move about freely.

7474. I did not mean, of course, that it should have a habitation as it were in several places; you mentioned, I think, earlier in your evidence that the busy season in Bengal was on the whole from October to January, and in Bombay on the whole from January to March?—Yes.

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7475. Would it be feasible for the board to sit in Calcutta during the first three months and in Bombay during the next three months?—I think so. But if Calcutta were the centre, they naturally would not want to be so long in Bombay as in Calcutta. They would not aim at dividing the time in that way.

7476. The effect of the central board on the local board in the place where the central board was situated might work both ways. If the central office is in Calcutta, you might say that would leave less independence to the Calcutta local board, or you might say it would put the Calcutta local board in a better position to impress its views on the central board. Which of those views do you maintain?—I regard the local boards as being not interfered with, but as having the advantage of referring matters for immediate decision and getting an immediate decision from the central board; so that whether they are in Bombay or Calcutta is immaterial to my mind.

7477. Would you have more than two local boards? Would you, for instance, think of setting up one in Rangoon?—I think very likely.

7478. And one in Northern India, or not?—I doubt it. I think that is a matter on which you should move slowly, according to experience.

7479. You might think in course of time that it would be advisable to have a new local board somewhere else?—You might think so.

7480. I come now to the question of Government responsibility. You do not advocate the bank so much as a way by which the Government would get rid of its responsibilities, but as a policy involving the improvement of the machinery through which it exercises them?—That is my whole point.

7481. The Chairman suggested to you that in a sense the executive officers of the bank ought to be regarded as the servants of the Government; obviously, in a sense, the Chairman's suggestion has to be answered in the affirmative?—Yes.

7482. In what, in your opinion, would the distinction consist; is it that the officers of the bank are to be outside the machine of Government?—Yes.

7483. So that, although the executive officers would be subject to dismissal, they would not have to transmit their individual proposals for sanction in the way in which Government officers have to do; is that your point?—Yes, that is my point; they would not have to refer to Government on any point which arises unless they choose.

7484. The bank management would act on its own without reference to the Viceroy's Council, although it would be watched by some representative of the Viceroy's and be subject to dismissal by him in the event of very grave misbehaviour?—That is exactly my view.

7485. (*Sir Ernest Cable.*) Do you suggest that the executive of the central bank should be dismissible by Government?—If they can be nominated, I think they can probably be dismissed; but that is a matter of agreement, is it not, between the bank, the Government, and the servant? I should certainly like someone to have the right to dismiss an inefficient manager.

7486. (*Chairman.*) I think in answering my questions you indicated that you did not think the ultimate control should be left to shareholders?—Certainly not.

7487. (*Mr. Keynes.*) I suppose the position would be that the management would be subject to dismissal by the central board, and the central board would ultimately be under the orders of the Government?—In that respect, yes.

7488. So your main point is that you want some officials existing as a separate entity from the ordinary Government machine, and able to act on details without reference to it; is that so?—That is so.

7489. I also understand that on the board of directors, while the directors would be nominated by the Government, some would not be Government officials but would be commercial persons?—Yes; I should prefer the majority not to be Government officials.

7490. Looking at the proposal mainly not from the point of view of the Government, whether it would

lessen or increase its responsibility and so forth, but from the point of view of the country and its general development, what have you to say about it?—I think it would make all the difference in the world if the bank made its main object to develop the country and to make the country progress, as I believe it can do. As I have said before, the change in the conditions in India during the last few years has been very remarkable. I quoted a figure in my statement of some 60 millions in gold going into India, simply on account of the balance of trade. That was sheer profit. It seems to me that that money should be got hold of and used for the good of the country, and it seems to me that a bank such as we are speaking of would be the body who would do it. By getting hold of the money, I mean getting people to invest their money in railway and other concerns and so making the country progress, as it is bound to do. But if something is not done, I do not know what the effect will be, if money is going to go on pouring into India and sinking out of sight, and lying there; it is impossible to say what the effect will be not only on India but on international finance.

7491. Is it your opinion that such a bank would attract any new classes of clients which the Presidency Banks do not attract?—I take it that it would have its organisation much more widely spread, and therefore it would get at people who are now out of reach of the banks.

7492. Do you mean that if it opened branches wherever there is now a Government Treasury, it would be having five or six times as many branches as the Presidency Banks now have?—Yes.

7493. Is there any prospect of its being worth the while of the Presidency Banks to open branches at all widely?—I am afraid not.

7494. Do you think that this matter of getting branches widely spread all over the country is absolutely contingent on the establishment of a State bank?—That is my opinion.

7495. I think you suggest that one of the duties of a State bank was to popularise investments and the use of paper currency?—Yes.

7496. Is that also contingent on having this great number of branches all over the country?—It would be a part of it, and a very important part.

7497. Would it be possible, do you think, for these numerous branches to push small Government Bonds with coupons which were payable at the branch?—Yes.

7498. They could push them upon the small investors?—Yes.

7499. So that the issue of Government loans, and so forth, to small investors would be part of the business of this bank?—Yes.

7500. In your own mind, when you are advocating this bank, are you thinking mostly of the details of the machinery of Government and so forth, or are you thinking chiefly of the various commercial activities of the great branches of trade all over the country?—As I have said, I think India is changing rapidly, and that we have in front of us a condition which we have never had before, and possibilities which we have never had before. Of course that is only my own feeling and my own opinion, and I may be optimistic.

7501. I have one other question not connected with a State bank. I understood you to say to the Chairman that you did not feel perfectly secure that the Secretary of State would always maintain exchange at 1s. 3½d.?—That is so.

7502. Would a formal notification by him offering to sell Council Bills without limit at that rate increase your confidence?—It would.

7503. Would it actually influence you in your business?—It would.

7504. In exactly what does your doubt consist?—Are you doubting whether he would be able to support exchange, or whether he would vacillate as to the exact figure at which he would support it?—From experience our trouble is as to when he would support it. Notwithstanding his support, we have suffered very heavy losses.

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7505. Then you are hesitating not about his resources but as to his judgment?—I suppose so.

7506. It is not that his resources are insufficient?—Conditions have recently changed to the extent that he has very much more gold in reserve altogether as against 1908. I suppose he has in the Paper Currency Reserve some 25 or 30 millions more in actual gold than he had then. So one does feel safer to that extent than one did before.

7507. It is not his ability to support exchange that you doubt, but as he is not bound to a figure, you do not feel certain of the figure he would take in the next serious crisis?—That is it.

7508. So your hesitation would be met almost completely by a binding notification?—And by a declaration of policy as to the lines he was going to follow in working his reserves and building up his reserves.

7509. Having made that declaration, you would not wish him to increase his reserves much beyond their present figure, I take it; or would you wish that also?—I think there are now some two millions in gold, and I should like to see very much more than that out of the 22 millions. We have been rather brought up in Bombay in the idea that we ought to have the whole lot in gold. That is an ideal, and I think beyond what we will ever get; but we certainly want more than two millions in gold and in liquid cash. On that point I should like to repeat what I have mentioned in my memorandum. To talk of limiting the reserve is very disturbing and it is not very helpful, because we have heard of 10 millions, 15 millions, 25 millions. Presumably, if my idea of development goes on, it may be 30 millions or 35 millions or 40 millions in the next few years. Such ideas coming from Government officials in official speeches and so on, are rather disturbing, and I do not think they can be sound.

7510. There is one point I should like to go back to about the State bank. If Government balances, as has been suggested, and some part of the Government Reserves ought to be loaned, I suppose they could not be loaned according to a cast-iron rule?—Loaned by the State bank or apart from the State bank?

7511. Apart from the State bank they could not be loaned according to cast-iron rules?—No.

7512. Some element of judgment would be involved on the part of the responsible officials?—Certainly. It would be at their option, and the Government would lend just as much or as little as they chose.

7513. Under existing circumstances do you think the officers of the Government are in a position to get the information on which they could base a sound judgment as to that?—As to what they should lend?

7514. As to what and when, and on what terms, and to whom?—No, I do not think they are.

7515. You would introduce an element of expert knowledge into their counsels by the State bank?—Yes.

7516. (*Sir Shapurji Broacha.*) You have talked about the stringency which occurs in the busy season, and about educating the people; what do you mean by that?—I have been trying to explain; I have answered several questions as to what I meant by education.

7517. Educating them to make an increased use of notes? Do you think a State bank will help in increasing the circulation of notes?—In my opinion it will.

7518. In section D, paragraph 9 (page 575), you say "Distrustful as the people of India no doubt are, by nature and by tradition, of any security short of possession," and so on. Do you think they would prefer a bank's note in preference to a Government note? A currency note is guaranteed by the State now; do you think these people would feel equally secure if the note were guaranteed by a State bank? Would they not think that the Government would be shirking their responsibility in putting it on to a State bank?—I have not worked out myself the question as to the form the currency note would take under a State bank; I have not considered that question.

7519. Is the circulation not fast enough now?—It is quite fast, but it might be very much faster.

7520. Have you the experience that in India it goes very much faster if issued by a State bank, than if issued by the Government?—I have not.

7521. They have had experience of the Government for the last 51 years, and, as you know, Indians are a suspicious people and full of suspicions?—Yes, they are.

7522. (*Chairman.*) Do you think it might be necessary to keep the direct Government guarantee on notes?—I had not contemplated anything else.

7523. (*Lord Faber.*) I think what Sir Shapurji really means, is that if you circulate a note through the State bank, the natives might think it had become an ordinary bank note, instead of being a Government note. Do you not think there is something in that?—Yes.

7524. (*Sir Shapurji Broacha.*) You want the Government to appoint the directors of the State bank?—Only of the central board, not of the local boards.

7525. That means that the shareholders are to give their money to the Government to invest for them at the best rate of interest?—Not to the Government, but to the bank.

7526. If the State appoints the directors, they are Government directors?—I have been trying to distinguish between the two, as far as I can, all the time. My point is that they are distinct; of course, I may be wrong.

7527. The Government appoints the accountant-general, and the Government appoints the directors of the State bank?—Yes.

7528. The Government is responsible for both?—The Government appoint many other people as well.

7529. But the Government has to bear the responsibility of his misdeeds?—Such responsibility as is involved in his misdeeds.

7530. Do you know that there were State banks before?—I did not know that there were in India.

7531. There were three State banks at one time. There was the Bank of Bombay, in which the Government held shares and had two directors; the same with the Bank of Bengal, and the same with the Bank of Madras; but the Government felt the danger of those institutions and severed their connection with them because the responsibility was too great?—That was 40 or 50 or 60 years ago, and the advance in the finance of the country has been very considerable in the last 50 years. There has been a considerable change, and, in my opinion, it will change still more.

7532. The responsibility will be larger?—But the machinery is more complete, and the danger is much less.

7533. Do you know that the Bank of Bombay refused to amalgamate with the Bank of Bengal, although they were offered 500 rupees per share?—I did not know that.

7534. All the merchants. I think, including your firm, went up to the Governor to ask him not to put Bombay under the control of the Calcutta Bank. Do you think these local jealousies are now quite obliterated, and that Bombay traders do not think Bombay is the first city in India?—I do not think it is a question of Calcutta and Bombay at all. My proposal is that Bombay shall have a local board, Calcutta shall have a local board, and Madras shall have a local board, exactly as they have now.

7535. There must be a central board, and wherever that is placed, do you think people will believe that the Bank of Bengal has the same independence as the Bank of Bombay, or the Bank of Bombay has the same independence as the Bank of Bengal, supposing the central office were in one of those cities?—I think the aim of anything that would be worked out should be to avoid hurting the feelings either of Bombay, or Calcutta, or Madras.

7536. Do you think that the genius at the head of the central bank in Calcutta, say, will look to the commercial credit of Cape Comorin and the commercial credit of the Northern Provinces, or will he judge by the state of affairs around him?—People who have got to do business which is scattered over the country, usually try to look at it from all the points of the country.

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7537. The Government directors will be responsible for the misdeeds of their managers?—Certainly.

7538. I do not suppose there is an instance of one bank managing a whole continent. Do you think the Bank of France could do that?—We are dealing with rather new conditions and new circumstances: we are dealing with a very peculiar place, India.

7539. Do you know that the Bank of France has a greater facility for acquiring knowledge of the whole country, because it is in a central place and the people on the board know the different districts of France and their credits; and that with the Bank of England it is the same thing? What would you offer in the shape of that to this central bank?—We think we know a good deal about the conditions of India.

7540. Do you know as much of the conditions of India as the bank directors here know of the credits in the Lincolnshire district, and the credits in the south of England, or in Manchester and Liverpool? Do you think bank directors in India are in the same condition to judge of the credit of Pondicherry, Cape Comorin, Lahore, Karachi, and all those places?—I have said that the local credit and the local finance would be in the hands of a local board, who are in a position, as I think, to judge of the credit of the people with whom they have to deal.

7541. You say you would do it for the education of the people; do you think this central bank will help agriculture?—I think it will help.

7542. Do you think the Bank of England does away with pawnbrokers? To go to another point, do the bunnias always charge 25 per cent? Is not their charge regulated according to the credit of the man?—That is what I have said.

7543. Do you know that merchants now buy supplies direct from the agriculturists, and that the agriculturists are not so much in the hands of the bunnias now as they used to be?—I think it is very likely so.

7544. In the Punjab they will not have the middleman now, as they deal direct with the exporter; is that not so?—I do not know.

7545. Do you not think the co-operative banks would better help agriculture than a State bank?—I should think the State bank would help co-operative banks, and so would help agriculture.

7546. Do you know that there is a co-operative bank in Bombay which does help small co-operative societies in the Deccan and those places, and that its board is composed of native gentlemen who have a knowledge of the localities?—I have mentioned these co-operative societies as being the means of reaching the people.

7547. I think this education you speak of will come not through the State bank but through the co-operative banks, because, if you send one manager of the central bank to one place and another to another place and they do not know the language of the country, how could they speak to the people, and how could they educate them? Do you think they could induce more deposits to be made with the State bank? Are not the Presidency banks just as good?—The equivalent of the Presidency banks would still be there.

7548. Does the State bank incorporate the Presidency banks?—The State bank would be there in the place of the Presidency banks, and the organisation which is now there would still be there.

7549. We want more certainty for the maintenance of exchange by the Secretary of State, do we not?—Yes.

7550. And why we want these stringent conditions in regard to the quantity of liquid gold is to be assured of the par of exchange in all emergencies?—That is so.

7551. People would be less urgent in asking for these things if the Secretary of State were to guarantee for all time the par of exchange at 1s. 4d., that is, at $\frac{2}{3}$ on one side and $\frac{3}{2}$ on the other?—Yes.

7552. And, of course, the people will not have confidence in any remedies until they have more or less a liquid gold reserve to the extent to which the Government are able to accumulate?—That is so.

7553. (Mr. Gillan.) There are two small points in your memorandum that I wish first to refer to. In paragraph 10 of section A (page 571) you say, "I am told they declined a request for a loan of 50 or 100 lakhs of rupees on the security of Government paper." That rather leaves the impression that the Government adopted an obstructive attitude, and not only were against the general policy of lending money, but when the application was actually made to them they refused it. Apart from the general policy the Government would always have to consider also, in the case of any particular application, the status of the applicant?—Undoubtedly.

7554. That may be a point to be taken into consideration?—Undoubtedly.

7555. In paragraph 7 of Section C (page 574) you say, "Payments by currency notes come next, and by far the greater proportion of the balance of payments is made in this form." Are you there referring specially to the Presidency towns?—To my own business, and others from whom I have enquired.

7556. That probably is not the case in currency transactions outside the Presidency towns?—I should think very likely.

7557. In paragraph 12 of this same section C (page 574) you say that it should be borne in mind that it has been nobody's special business in the past to educate the people in currency matters. I am not clear yet what methods of education you would suggest. I can understand that the Government or a bank might encourage different forms of currency, or that it might increase the facilities for the encashment, we will say, of currency notes; but what further points had you in mind?—My main point is that you should endeavour to educate the people as to the proper currency to use; and that is done, as most education is done, by telling people; one tells one's own particular merchants that one deals with, they tell their friends, and so on.

7558. As far as that goes, would the Government not have an efficient organisation in its Treasuries and Treasury officers and district officers all over the country?—They might have an organisation, but I have not heard that Government has ever told their officers to teach people that.

7559. You think from that point of view a State bank would be more effective?—Yes.

7560. That raises another rather important point. If you are going to educate the people, you must have some clear idea of what you are going to teach them?—Certainly.

7561. The Fowler Committee, as you know, looked forward to an effective gold currency?—Yes.

7562. They said it was not possible at the time, but they hoped it would be established in the future?—That is so.

7563. When we come to examine what can be done to further that policy, we find that as a matter of fact there is actually very little that can really be done, and it remains to a large extent an ideal; but the ideal which one has in one's mind must influence one's action at various points?—Certainly.

7564. What is the ideal to which you are tending? Is it this effective gold currency which the Fowler Committee spoke of?—No, I do not agree with that; I am not in favour of that.

7565. Would you be prepared to put aside that policy definitely, and say that you have abandoned it?—Abandoned the gold currency?

7566. Yes?—I say encourage notes for everything, and I say avoid gold because of the risk of losing gold.

7567. Do you propose that the Commission should say that they so determine?—That is my suggestion, and I have said so very clearly.

7568. Next with regard to the reserves which are behind the currency policy in any case. You say in paragraph 5, section B (page 573), that there is a great lack of confidence; do you wish that the Commission should formulate and declare a policy?—Yes.

7569. In reply to the Chairman you said you would be prepared to lay down certain regulations governing the Gold Standard Reserve, and in reply to Mr. Keynes I think you said that one of the regulations would be

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to authorise the Secretary of State to sell unlimited amounts at a certain fixed rate?—That is to gain our confidence as merchants in the stability of exchange.

7570. Is there any other point of policy which you would like to have?—What I have said is that I should like to see a larger proportion of gold or cash statutorily fixed in the Gold Standard Reserve than there now is. We have now, I think, some 2 millions out of 22 millions.

7571. So that your declaration of policy would refer to this notification of unlimited sales at a certain fixed rate, and also to the constitution of the Gold Standard Reserve?—Exactly. I should like to see a certain sum fixed as the minimum of the gold or the equivalent of the gold in the Gold Standard Reserve and to have no limit put to the amount to which the Gold Standard Reserve would go.

7572. (*Sir Robert Chalmers.*) In metal?—I do not say no limit in metal, but I say a minimum amount, or a minimum proportion in metal; short loans or gold.

7573. (*Mr. Gillan.*) With regard to the State bank, I think your general position is that after all Government and trade have enormous interests in common?—Their interests in common are very large.

7574. That at present those interests are not properly knit together, and that some effort should be made to improve the organisation?—That is so.

7575. There was a point that was not clear to me in an answer that you gave to Mr. Keynes. You said, I think, that the extension of the branches of the Presidency banks was contingent on a State bank being founded?—I think that is very likely so.

7576. Why should that be?—A State bank supported by the Government would be able to extend its operations into places which a bank with shareholders would not feel itself justified in doing. A Presidency bank is a shareholders' bank which is making money for its shareholders, and it is not, in the same way as a Government bank would be, heavily involved in the education and development of the country.

7577. I quite see that; but would it not be possible to place the Government balances in the same way with the Presidency banks?—I have agreed that that would be an advantage.

7578. Would that not facilitate the extension of these branches?—If Government placed these balances with a guarantee that they would remain, but at present they are practically money at call.

7579. I do not know what distinction you are drawing between the Presidency banks and a single State bank in that matter; I am only talking now of making over the Government balances generally?—Suppose we had, say, some 18 crores taken as your minimum figure, then if you had 25 or 26 crores it would be admitted, I suppose, that about 7 or 8 crores would be available for the country. If these funds were placed in the hands of the Presidency banks, and Government undertook that they would not remove them for two months or three months, they would be of great value; but if Government merely paid in 30 lakhs to-day and 40 lakhs to-morrow and took out 60 lakhs the next day, then that money is of no real value from the bank's point of view.

7580. (*Lord Faber.*) Is your argument that a State bank would open branches at unremunerative places where the Presidency banks would not do so because of their shareholders?—That is so.

7581. Would not the people of India suffer in consequence of the Government banking at a loss in certain places?—With very many big concerns in this world trade has to be carried on at a loss in places in order to carry it on as a whole. In some parts you must take a loss, but the advantage given to you in other directions is very large, and though you must first of all work for a year or two at a loss in certain places, you may eventually come on to a paying basis if you could influence the people, as I believe you would influence them, by approaching them and giving them advice as to investment and loans.

• 7582. Would you really go to these unremunerative banking places in order to give them education?—Yes, and you would possibly make them remunerative; but

I do not think the directors of a Presidency bank would always feel justified in doing that.

7583. (*Mr. Gillan.*) In reply to Mr. Keynes you explained generally the sort of work that would have to be done by the central board which you suggested for the state banks. Your position is, as I said, that there are certain defects at present and that it should be possible to find some remedy for these defects, not necessarily your scheme or anybody else's scheme, but some remedy should be possible?—Yes.

7584. We can get to a conclusion on that subject only by examining the different schemes that are set before us. With regard to this central board the difficulty that strikes me is this: How often do you suppose it would be necessary for that central board to meet?—Once a month might be enough, on the other hand they might have to meet every week or every day at other times. In times of crisis and difficulty obviously they should be in the closest touch, but under ordinary conditions, such as we very often find, fortunately, in India, they need never worry about meeting at all.

7585. You would have on that board, we will say, two Government officials?—Yes.

7586. You say it is essential that they should meet in Calcutta, Bombay, or some other commercial centre; have you considered the difficulty of those officials being away from their department?—Government have a number of high officials in Calcutta and in Bombay, and they might, in view of the enormous interest in the bank, put an even higher official there and find work for him to do in, say, Calcutta or Bombay.

7587. Did you mention the Financial Secretary?—No, I mentioned no officer.

7588. Would it not be almost essential that you should select for this central board some official who is not at the headquarters of the Government of India?—Yes, I suppose it would.

7589. The fact remains, of course, that in all questions of principle the Government would still be the authority?—No, I think not. They have handed the business over.

7590. I mean on broad matters of currency policy and so on?—I take it that they would work as banks and Governments often do, and that they would be able to consult each other. The directors of the bank would not want to do some foolish thing or to act contrary to the Government's wishes; in fact, the bank would not want to act contrary to the Government.

7591. I take it that in all these matters of financial or currency policy it would be for the Government to decide and not the bank?—I do not see how you could have your bank if it did not decide. I do not think you will get a first-class banker to go out to India and do this work if he is to be hampered and overruled.

7592. Supposing the question were raised of a change in the currency system; the bank could not decide and carry out that change of itself; that sort of change would have to be decided on by the Government, surely?—I suggest that a case of that sort, an important point which you can foresee, should be mentioned as one which should not be decided without the consent of the Government. If you should make a recommendation in that form, I should suggest such important points should be included in your recommendation. You could say that the Government should reserve to itself the right to approve any alteration in the currency.

7593. There would then be cases which ought to be reserved for the consideration of the Government?—I think these should.

7594. They would be decided by the headquarters' staff of the Government of India?—Presumably.

7595. Who would not be represented on the central board?—Unless Government thought it worth while to create a post in Calcutta, if they have not got one, in which case they could have a member of their Finance Department or a man who has had great experience of their Finance Department.

7596. You think there is a difficulty in filling in the Government representatives, but it is a difficulty that may be overcome?—I think so.

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7597. (*Lord Faber.*) Who do you propose would be the authority to decide the all-important question, for instance, how much liquid assets the bank should hold, which goes to the root of a bank's existence? Who would decide that point, the Government or the directors?—I think the Government would have to make up its mind, before it formed the bank, on many essential points which it would include in its articles or charter or whatever it were called.

7598. As you will readily see, it would be very necessary for the directors to meet at least once a month in the case of a bank with all these ramifications, because the bank might easily get wrong or tied up as we say in banking parlance, as it might have assets which it could not realise readily, and unless that branch of the work was very carefully watched there would be trouble?—Surely it would be reasonable for the Government to say, you shall hold so much of your assets in a certain form.

7599. (*Lord Kilbracken.*) The Government of India, according to your proposal, would have the ultimate control of all the bank's operations and would therefore be responsible for them, I suppose, to the Secretary of State?—I think that the Government of India would not have the control of the bank.

7600. Do you really think that, in view of the scheme which you have sketched out? Would they not practically be responsible?—I think not. Having given them their charter, and having given them their directors, they seem to have got clear of the bank altogether.

7601. Supposing that the bank—it is not very likely perhaps—were to do something foolish, do you think that the Government of India would not be held responsible for it by the public and by people in this country?—To me it is almost inconceivable that men at the very top of their profession should be so very foolish that such a position would arise. After all, this point arises in every business and in every bank.

7602. Of course, the conditions in India are peculiar. There is a tendency to look upon Government as responsible for many things for which the Government is not held responsible in this country, and I should have thought that a State bank of this kind, controlled, as it would be, by the Government of India, would be looked upon in India as being very much under the thumb of the Government, and the Government would be most distinctly held responsible for what it does in all great matters. Do you not think that would be so?—It would be so hypothetically—that is my only difficulty. But if a crisis arose anywhere, I take it that the Government's first duty in its own interest would be to go to the assistance of the bank.

7603. I am not talking of a crisis, I am talking of the policy of working the bank which might or might not be approved by some sections of the public. Surely the Government would be held responsible? Supposing it appeared to a large section of the public that the bank was pursuing an unfortunate policy, would not the Government be held responsible for it?—Do you mean, Would the public consider that they were entitled to look to the Government to get recompensed for the loss that they might suffer?

7604. That would follow; but would not the Government be expected to hold themselves responsible in the last resort for the action of the bank?—No, I do not think so.

7605. To a certain extent, I suppose you would say that they are responsible. They cannot wash their hands of the bank, can they?—No, nor do any government of any country wash their hands of the bank. The whole country is involved in it, and therefore the Government—because the Government are the country—are involved in the success of the bank.

7606. You must draw a distinction between a State bank, which this would be in a very special sense, and such banks as, for instance, the Presidency banks which now exist. Surely the Government would be far more responsible for the doings of this new bank than it is for those of the Presidency banks?—I should guess that in giving a charter to the State bank the Government would secure itself on the important points in which the bank might or possibly could go wrong.

7607. You think it is possible it might do that?—To a great extent I do.

7608. (*Chairman.*) Let me put a case to you: You suggest that all the Government balances should be transferred to this bank, and you suggest that it should be within the discretion of the bank to keep those balances where they think desirable, either in London or in India. There has been a great deal of criticism of the Government of India—we do not want now to go into the question of whether it is well or ill-founded—for withdrawing balances from India and lending them out in London. Suppose such a bank pursued exactly the same policy, would the Government of India escape criticism under your scheme, or would they be expected to intervene to control the bank?—I entirely approve of lending money which is in London.

7609. I am talking of the people who do not approve; against whom would their criticism be directed? I am not asking whether the policy is right or wrong, but you know there has been a great deal of criticism of it?—Yes, there has.

7610. Suppose the bank, having the management of the balances, instead of lending the money in India find it more desirable to lend it in London, and bring it over here and lend it here, we might expect the same criticism from the same quarters—you think ill-informed criticism—but we might expect the same criticism?—Yes.

7611. Would the bank act as a lightning conductor which would carry away all that criticism from the Government, or would people look past the bank to the Government and say to the Government, why do you allow the bank to do this?—The bank would be entirely responsible.

7612. (*Lord Kilbracken.*) And would be held entirely responsible by the people in India?—Yes, I think so.

7613. (*Chairman.*) And the public would be satisfied that in such a case they had no recourse to the Government of India, and that the Government of India was not open to any criticism?—I can only speak as one of the public.

7614. That is your opinion?—That is my opinion.

The witness withdrew.

At the India Office, Whitehall, S.W.

EIGHTEENTH DAY.

Thursday, July 31, 1913.

PRESENT :

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord KILBRACKEN, G.C.B.
Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.

Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Mr. F. C. LE MARCHANT called and examined.

7615. (*Chairman*.) Will you be kind enough to tell the Commission briefly what your experience has been in connection with Indian finance?—I was a member of the Council from February 1896 till my 10 years' term had expired in 1906. I succeeded to the Chairmanship of the Finance Committee when Mr. Hardy retired, and in my actual appointment I succeeded Mr. Bertram Currie.

7616. You were also, I think, a member of the Fowler Committee?—Yes.

7617. May I ask you one or two questions in regard to the Report of that Committee? The Committee in its Report recommended* that a special reserve should be formed out of the profits on the coinage of rupees and kept in gold. Some question has arisen in the evidence we have had as to what you meant by "gold" in that connection; did you understand it as actual gold or as covering gold securities?—I think the predominant idea was actual gold, but the working out of the idea may not have been fully elaborated in the minds of the Committee, so that individually I should rather substitute "sterling" for "gold." Still, I think, especially in the earlier days of the development of the policy, that gold was predominant.

7618. Have you followed the policy of the Indian Government since?—In a general way I have; but I cannot say that I have official information on most of the subjects.

7619. You will very likely be aware that of actual gold in the Gold Standard Reserve there is comparatively little—rather under 2 millions—and that the major portion of the reserve has been invested in securities?—That is so.

7620. Do you think, in the light of the experience which has been obtained, that such a proportion of actual gold is sufficient?—I should doubt its being sufficient if the Gold Standard Reserve fund was taken by itself and separated from the Paper Currency Reserve. In the first instance, after the Fowler Committee Report there was no separation, and the Paper Currency Reserve was the whole fund. It was on its separation, if my memory is correct, that a recommendation came from the Government of India to invest primarily in Consols; and, following to some extent the precedent of the Paper Currency Reserve, and still more, having regard to the fact that the requirements of the gold fund would be mainly in London, I think that was not departing from the essential principle of the recommendation of the Committee. But, as I was saying before, if there were no gold in the Paper Currency Reserve, and no gold on that account in London, or easily available in London, it would be questionable whether so large a proportion of the Gold Standard Reserve fund should be in securities.

7621. In the light of recent events would you think it wise to invest any portion of the reserve in

first-class securities such as Consols, but with no date of redemption fixed?—There is a great difference of feeling among many leading authorities in the City on that subject. Just at this moment there is a revulsion of feeling in favour of longer-dated securities, and I should think from my own point of view that they are right. The first question was, what was the security that was most easily saleable and most available at the Bank of England? One should bear in mind throughout that the relations of the Secretary of State to the Bank of England affect the choice of securities. At the time Consols were purchased they commanded a wide market, more than any other gilt edged security. But I would question how far investments ought to be made in Consols now. Looking at the proportion already in Consols, I think that it is wiser to buy stocks with maturities, and especially Treasury bills and other stocks that run off of themselves.

7622. As I understand you, the amount of gold which you would think it necessary to keep in the Gold Standard Reserve would be very much affected by the amount of gold you have in the currency reserve?—Yes, and by the views of the Secretary of State and the Government of India about the location of that gold.

7623. Was not the primary object of the Gold Standard Reserve to maintain the rate of exchange?—Certainly.

7624. And of the Currency Reserve to maintain and provide for the encashability of the notes?—That is so.

7625. To a certain extent, if I understand you aright, you are treating the currency reserve as a security for the maintenance of exchange?—Yes, to a certain extent, in fact to a material extent, I think I would say.

7626. Have you ever thought whether, if their objects are to be to that extent mingled, it might be desirable or possible to amalgamate the two reserves?—I think that as greater experience is gained—but experience is a matter of rather slow growth in currency questions—there might be some advantages, but at the moment the difficulty that would occur to me is that it is necessary that the Paper Currency Reserve should be under statute and fixed by statute. There is a certain amount of elasticity in the Gold Standard Reserve and the use of it; and though, in practice and by agreement between the Secretary of State and the Government of India, the applications of it are well defined, I think there have been instances in which the silver portion of the Indian branch has been used in a way that it might have been rather difficult to define by statute. Suppose, for instance, it is desired to give very considerable freedom and discretion, that conflicts with the idea of a statute which implies precise limitation. So far as I can follow it at present, the views of the Secretary of State and the Government of India are so much in harmony, and they appear to agree so largely in

* C. 9390, page 18, paragraph 60.

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principle and on the amount of the funds and the distribution of the funds, that I think it almost has the effect of a statute so far as concerns the Gold Standard Reserve for practical purposes.

7627. May I take it from what you have just said that you still think it would not be wise to bring the Gold Standard Reserve under statutory regulation?—I should rather hesitate to do it yet.

7628. Until a wider experience has been gained?—Yes.

7629. We have heard a good deal of criticism of this, which I have called, for want of a better term, in-and-out working of the two reserves. It has been put to us by some witnesses that it appears very anomalous that there should be silver in a reserve which is intended to preserve exchange, whilst, on the other hand, there should be gold in a reserve which is created in order to provide for the encashment of notes in rupees. What is your opinion about that?—It is anomalous, but each branch has grown up from the necessities of the case, viz., on the one hand to keep in London, and available there, as much gold as can be spared to maintain exchange, and on the other hand to have in India a supplement of silver which can be dealt with more freely than if it were under the Indian Paper Currency Act. When Council bills are paid by silver withdrawn from the Indian branch of the Gold Standard Reserve it is now the practice of the Secretary of State to add temporarily a corresponding amount in sterling to the London branch of the same reserve, by means of a deposit at the Bank of England, or in some other sterling form, and not immediately to earmark gold. If this silver were to be transferred to the Paper Currency Reserve it would seem necessary to amend the Act to secure continuance of the same powers.

7630. I think it is clear from the Report of the Fowler Committee that they intended that this Gold Standard Reserve should be kept in India?—I have not any clear recollection as to how far that was defined, but I think in the first instance that was the idea, that gold should be shipped to England if exchange fell. On the other hand, the moment the Secretary of State began investing it in Consols and sterling securities, that was a step in the direction of keeping it here.

7631. Even if kept in India, I understand that the Fowler Committee's idea of the use that would be made of it was that in a crisis it would be made available in India for shipment to London?—It was.

7632. If, then, when the crisis comes for which it is provided, it is needed in London, do you see any objection to the policy which the Secretary of State has actually pursued of keeping it in London?—It appears to me absolutely necessary to keep it in London, and I think the state of affairs that occurred in the years 1907-8 and 1908-9 emphasises that.

7633. Would you develop that?—The Fowler Committee recommended that the gold reserve should be made freely available for foreign remittance when exchange fell below specie point, the method to be according to circumstances. As one method they suggested remitting gold to England with a corresponding reduction in Council bills. Another course which was not specified, but would, I think, have been consistent with the principle of the recommendation, would have been to pay gold to the banks which needed remittances, to be applied to reduce indebtedness abroad. In the crisis year 1907-8 the reduction of Council bills, which had proved a potent instrument for maintaining exchange in previous years, was not sufficient; the balance of trade was exceptionally adverse, imports not having diminished in at all the same proportion as exports, and the Government, after apparently some hesitation, met the emergency by reversing the usual procedure, and offered in India sterling drafts on London. To meet those drafts the presence of the gold or sterling securities in London was a paramount necessity.

7634. When they made gold available in India in 1907 and 1908, did you think the result was satisfactory from the point of view of the support of exchange?—No. It is impossible to speak positively on this

subject, especially if one has no official contact with it I cannot say whether it would have been possible to pay out the gold to remitting banks, to whom the sterling drafts were delivered. There are always great difficulties in discriminating. My answer to your question would be that it was not satisfactory in its results.

7635. As a matter of fact, in the way in which it was done, the major portion of the gold did not go to the support of exchange?—So far as I have been able to follow.

7636. Accordingly, in the light of experience, you have come to the conclusion that the Gold Standard Reserve ought to be retained in London?—Yes.

7637. Would you keep a portion of it in gold, which would vary according to the amount of gold that there might be in the Currency Reserve?—I think it might be convenient to have some minimum limit, such as 5 millions, or, if gold in the Paper Currency Reserve was not available in London, I think then it would be necessary to have 10 millions.

7638. It has been put to us by some witnesses that, after all, we have to revise our ideas rather as to the saleability of securities in view of the recent course of events in London and elsewhere, and that whatever may have been thought 10 or 15 years ago, you want a strong defence in actual gold now to give you time to realise whatever securities you have?—That is so. The demands on the Government in London are spread over a certain number of months; for instance, when the bills I am speaking of, some 8 millions, were sold they did not all fall due at the same moment, and so also with the expenditure in London. There is, therefore, a certain latitude of time in dealing with the securities; and looking at the large amount of bills that are held, they would either run off or would be exceedingly convenient to borrow on for a short period; so that, looking at the list of securities so far as I have been able to examine it at present, I should feel that on the whole a large part was liquid.

7639. I think the Fowler Committee also contemplated the early establishment of a gold currency?—Yes.

7640. Do you consider that that recommendation has been fulfilled by the steps which have been taken?—A very large amount of gold has gone into India. I state that point first, because one of the objections to the gold standard as a whole that was urged by authorities of considerable importance was, that it would be impossible to get gold into India. Various expedients were suggested, and so first-rate an authority as Lord Swaythling (as he subsequently became), suggested ways, such, for instance, as making duties payable in India in gold, and other expedients of that kind, which I have no doubt were perfectly sound in themselves, but proved to be not required. I merely refer to that as showing the ideas that were in the minds of experts as to the difficulty of getting gold at all. That difficulty, one may say, has surmounted itself.

7641. And, as I understand, it has so much surmounted itself that critics are beginning to suggest that too much gold goes to India?—It is so. It is the occasion for many of the criticisms on the policy of the Government. The objection which has most force is that the gold passes away from currency uses and is hoarded. Hoarding is an elastic phrase. It has been said by an Indian authority that in India every man is his own banker. Under these conditions much of the gold is not immediately effective as currency, though potentially it may come into use. In 1898 much was said of the possible use of silver ornaments as a domestic reserve. In some respects the same may now be said of gold, whether in ornaments or bullion, and still more of sovereigns. But I am not aware how far gold in any form came out of hoards in 1908. Sovereigns would have been merged in the circulation.

7642. In talking about the possibility of its coming forward again as currency you alluded to the contingency of famine; I gather you are a little doubtful how far it would come forward then?—It is a matter of degree and of place. Those parts of India where

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sovereigns are not hoarded would not have them to produce, and I gather from the currency reports on India that there is a very wide difference in the practice in the different parts, so that it would rather depend on the locality of the famine. Still I am not impressed with it as a matter of great importance.

7643. What I rather wanted to put to you was whether you thought there were any other circumstances, except the pressure of famine, which would be likely to bring this gold out. Suppose, for instance, you have an exchange crisis apart from the pressure of famine, would the man who hoarded gold be likely to produce then, in order to turn into food, whatever gold or ornaments he has?—No. I think the probability is, looking at the characteristics of races, that he would rather keep it.

7644. That being so, the development of events having been what you have described, do you hold now that it should be the business of the Indian Government to press a gold currency?—No, I certainly would not press it, least of all in those parts of India where the community appear to dispense with it conveniently. I think it has always been stated that in Bengal, for instance, in the jute country and in the rice country, the demand for gold is of an exceedingly slender character, and, so far as there is a demand, it is for ornaments. On the other hand, if you take the Punjab and Northern India, and, above all, Bombay, it appears to me that the statistics point to there being a very active demand. The reports give abundant evidence that in the parts just mentioned the sovereign is in increasing use as currency in an effective manner, and used by all classes in daily transactions.

7645. We have had evidence as to those very marked local distinctions in the use of gold. Do I interpret your view rightly if I say that you would recommend the Government of India to provide the people of India with what they ask for?—Yes, with one qualification. Where it is evident that the demand for sovereigns is only in place of bullion I should be in favour of restriction in the issues, especially when there are indications of impending famine or crisis. This is a matter of administration; restriction has already been exercised when the supply has run short; the Government is under no legal obligation to give gold. In France there is economy in the issue of gold, at least to the general public. I should be in favour of meeting the demand for sovereigns in the places where they form part of active circulation, but restricting issues where that is not the case. Every year adds to experience as to the local uses of sovereigns—at times there has been a falling off in the receipts of sovereigns from the public by railways and post offices: latterly again a marked increase. Progressive experience is the best guide to action in regard to the distribution of gold.

7646. I think you told me that in your opinion gold in circulation, at any rate, until it reaches very large figures, is not of great efficacy for the support of exchange in a crisis?—That is so. I think it is a matter of degree. One often uses the word "circulation" in a way which it might be difficult to define. If one fixed the reserves of Government at any one given moment as fully adequate to maintain exchange, I am inclined to think that for any additional currency that has to be coined after that date, gold is as effective as rupees supported by a proportion of gold. I am not prepared to say that there is a marked difference.

7647. In the meantime, as long as you are coining rupees, you are adding to the Gold Standard Reserve, are you not?—You are.

7648. Provided that you do not exceed the real demand for currency in India, do you see any cause for alarm in the growth of the rupee circulation?—It is a difficult thing to forecast how the position would appear if one imagined it increased over a succession of years. Speaking at this moment I should feel no alarm, because the Gold Standard Reserve would increase, and a considerable proportion of the rupees that were coined would go out of circulation; so that

from that point of view I think the risks from additional coinage are exceedingly slight. It was just possible that a different set of circumstances might have occurred, and at one time it looked as if they would occur; it looked as if silver might rise to a point intermediate between, say, 27*d.* or 28*d.* and the 42*d.*, which would approximately be the equivalent of the 1*s.* 4*d.* In that case there might have been a much lesser proportion of gold accumulated in proportion to the coinage. I do not know that that would have been a very serious risk, but still it affects calculations if the accumulation in reserve is, say, half what it is at present. For the time being, owing largely to the action of other countries in demonetising silver, that risk seems to have passed away.

7649. There is no way in which the Gold Standard Reserve is increased at present, I think, except by the coinage of new rupees and the interest on the sum already in reserve?—That is so.

7650. Suppose that when there is a demand for fresh currency you issue gold instead of rupees, your Gold Standard Reserve ceases to grow?—Except, if gold is being shipped out and being handed in to the treasuries or rather into the Paper Currency Reserve. Then you get gold; but otherwise you are not increasing reserves.

7651. Unless, therefore, the gold comes out of circulation and back into the currency reserve, the Gold Standard Reserve in the hands of the Government in support of exchange ceases to grow?—I should have thought that if there were large importations of sovereigns by the public, and those were handed to the Government for existing rupees or for notes, that at all events the Paper Currency Reserve gold would grow, and that that to some extent would fulfil the same purpose.

7652. May I take it that in either case you would hold that gold in one of the reserves is far more valuable for the support of exchange than gold in circulation?—It certainly is with the present uses of gold in India. How far if those change, if, for instance, the effective use of a gold currency develops in a considerable part of India, that might be to some extent modified, I am not prepared to say; but under present circumstances, it is as you say.

7653. May I ask your opinion about England, by way of getting more exactly your mind on this subject? We have a very large amount of gold in currency; do you think that gold is largely available for the support of exchange in a crisis, or does it represent in the main a certain amount of coin which we find it convenient to have in our pockets, and which we carry regardless of the condition of the money market?—I think if you distinguish between the gold in the pockets of the public and the gold in the banks, it is so. No doubt there is a considerable amount of gold in the reserves of the various banks in England, and presumably that would be efficacious.

7654. I think that does explain to me what you were saying. As long as the gold goes into what we call hoards in India, or into gold ornaments and so forth, it is not of great value to exchange?—It is of none whatever.

7655. If it is accumulated in the reserves of the banks, or in the Indian treasuries, then you would consider it of great value to exchange?—No doubt.

7656. You have observed that the circulation of notes has increased very largely in India?—I think it has doubled in about 11 years.

7657. You said just now that you would be inclined, if you were the Government of India, to give the public what they wanted; would you have any preference that they should take one form of currency rather than another?—I think notes would certainly be preferable. Of course, the habits of the people plainly bear on it, but as to which is preferable I should say that notes are unquestionably preferable.

7658. If the Government of India could exercise any influence to increase the circulation of notes rather than gold or rupees, would you favour that course?—Decidedly.

7659. Now may I ask you a question or two about the opening of a mint in India for gold coinage; I

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think the Committee of 1898 recommended that?—They did.

7660. Can you tell me at all what importance they attached to it, and why they attached importance to it?—I think partly it was connected with the production of gold in India itself, which was taken at about two millions a year. There was no doubt that if that had been minted and remained as coinage in the country, after a certain succession of years it would have become an appreciable item. I think also there was the idea that it fell in with the sentiments of the country.

7661. Was the recommendation connected with the idea which, as you say, had been presented to you by witnesses of great experience, that you could not get gold into India?—Yes, to some extent.

7662. Did you consider it an important recommendation?—No. I think if it had been, the Government would have followed it up with greater force. One consideration that told against it was that the prospect of securing the gold produced in India was doubtful. There were some incidental circumstances that told against the Government securing it, and it was quite plain, I think, that if the gold was not obtained, the *raison d'être* for it mainly disappeared.

7663. Could you tell me whether those circumstances have changed since that time?—I should doubt whether they have. Of course there was always a possibility that some of the gold imported in bars might have gone to the mint, but that was not such a likely circumstance.

7664. There was no advantage to the importer, was there, in taking bars to the mint there, rather than in bringing gold to the mint here?—The bars presumably are largely imported for ornaments. I have at times heard that formerly the bars were imported when there was any degree of unsettlement in India. This I did not hear officially, but a friend who was in the Indian trade told me that he had extensive orders for bars if there was any political disquiet, on the ground, I suppose, that in that form it was easier to convey away or to conceal. Of course it might always have turned out that some of that gold would have come to be minted subsequently, but still that would not be a very important element.

7665. On the whole, the people who took bars under those circumstances did not take them for the purpose of tendering them for coinage, but for the purpose of putting them in a safe place until the disturbance passed away?—Yes, and probably retaining them altogether.

7666. The Fowler Committee had to deal with a great many subjects on which they had perhaps not very much experience to guide them; now that we have seen their recommendations at work or a portion of them, do you attach importance to the opening of a gold mint in India?—No, I do not. I am aware the opinion is held by people of great Indian experience that minting a purely Indian gold coin would be an advantage; but if the coining of Mohurs is excluded and there are decided objections to that course, I do not see the advantage of a mint for gold. The Mohur might conflict with the sovereign, which is the coin of the Empire.

7667. I am not quite certain how far you are prepared to express opinions on some of the subjects which have been remitted to us; but at any rate I should like to ask you whether you have formed any strong opinion as to the desirability or otherwise of the establishment of a State bank in India?—As a general proposition a well-constituted and managed bank is an advantage to the community, but in the particular case in question, that of a State bank, the circumstances differ widely from those of a bank on a commercial basis, and the forms which the constitution of such a bank might assume vary from types of strictly limited sphere to others designed to take a large share of the business of India abroad as well as at home. Among projects mentioned in 1899 was one by a very eminent authority, that of a bank with a capital of 14,000,000*l.*; not necessarily to compete with the Presidency banks, who were to be invited to form the nucleus of it. This bank was to confine itself to internal business, and act in many respects like the Presidency banks, but with

larger Government funds and wider powers. It was designed, no doubt, to deal with one of the main questions of Indian banking, the demand for advances during the movement of crops. It is, however, a question whether such an institution would be remunerative, and whether the provision for seasonal demands could not be met by the Government through the Presidency banks as they now are. So far as I can draw an inference from English experience, the expense of extending numerous branches, with their management and staff, especially in India where distances are large, would be very considerable.

7668. You have spoken of the advantages, or the possible advantages, of such a bank to trade, and you have given us your opinion on that. One of the reasons that has been put and has been pressed most strongly on us by witnesses, I think, is the desirability of relieving Government of part of the intricate financial business which it now has to perform. The Government of India and the Secretary of State between them, do a great deal of what we ordinarily term banking and exchange business. Supposing that anybody saw their way to recommending the creation of such a bank and to framing a scheme for one, do you think that such a bank could relieve the Secretary of State and the Government of India of the responsibility which they now bear?—I should doubt its being able to relieve them entirely. I should have thought that at all events the Government of India and, to a certain extent, the Secretary of State, were so immediately concerned in the note issue, the security of Government balances, and the measures to meet emergencies as in 1908, that a bank could not take the burden entirely off their shoulders. I should have thought too there was some risk that the bank might become simply another Government institution—that the attempt to exercise control by a single representative, or perhaps by two representatives, might not work in a completely satisfactory way, and that there would be a risk that it would really become another Government department over again.

7669. You spoke just now of the difficulties of trade in the busy season and of the rates of interest then; I think you said that you thought Government and the banks ought to be able, under present circumstances, without the creation of a new institution, to do as much as could reasonably be done?—I do think so.

7670. Do you think Government might do a little more than it does now in the busy season to help trade?—I think it would be quite possible to make advances for, we will say, from two to three months at a time, from November to the end of March.

7671. To whom would you make those advances?—Exclusively to the Presidency banks.

7672. Would you require security from them?—I should assume that the money would be used to facilitate trade, especially the export trade, during the period before merchants are able to what is called make bills. When an exporter is in a position to draw a bill on London, he is in a position to sell it, we will say to an exchange bank, so that it is difficult to say that at that moment there ought to be any severe pressure on India; but there must be a considerable interval before the delivery of produce when the expenses of collection and other expenses up-country have to be met, and at that season he is not in a position at all times to offer an immediately negotiable instrument. I should assume that the Presidency banks with their knowledge of local circumstances would be in a very good position for making advances at that period, and that in that case they could take the bills of these merchants; and then I should assume that those bills with their endorsement would be a reasonable security.

7673. Have you formed any idea in your own mind of the sort of sum that it would be desirable for the Government to lend to the banks under those circumstances?—I think there are two questions—what amount would be likely to be effective, and also what amount the Government could reasonably spare? • Of course there is always a risk when advances of that kind are made, that in succeeding years trade counts

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upon them, and that what might be sufficient in the first instance may not be sufficient in a subsequent year. Putting that aside, I should have thought that, say, something like three crores or presumably in some years four crores—of course, it would vary with the years, the produce, and the circumstances—some amount of that description would be sufficient. I indicate it rather generally, because the Government of India would have the opportunity of collecting the views of the exchange banks and chambers of commerce, and would be in a better position for naming amounts. But I assume some such amount as that in my argument. I should have thought that an amount of that kind might come out of that part of the currency reserve which at present may be called fiduciary, and that some of the securities there might, if need be, be diminished. The money would earn interest to some extent as those securities earn interest, and I think it would be more usefully employed.

7674. Have you considered whether it would now be safe to increase the fiduciary portion of the currency reserve? At present, I think I am right in saying, it is fixed at a particular sum by statute irrespective of the amount of notes in circulation?—I believe it to be so. I think the amount is 14 crores.

7675. Have you ever thought whether it would be safe to take not a fixed sum, but a proportion of the whole?—I should have thought it would be an improvement to take a proportion.

7676. That would give some elasticity to the currency system which it now lacks?—Yes. I think a proportion of the minimum circulation would be a safe practical basis.

7677. Do I understand you to say, take a series of years and average the minimum circulation over five or six years, say, and then fix your proportion on that minimum circulation?—I think that calculation would be a guide; but the increase of circulation has been so rapid in the last two or three years that, though that would give a principle, I think one would have to look to the circumstances of the last year or two particularly to see if they affected the result. I speak with hesitation, because it is a special subject, which the controllers of the currency would know better than I do, but I should have thought 25 per cent., or something of that kind, would do.

7678. In principle, at any rate, you would take no objection to that?—No.

7679. I go now to quite a different subject. We have been asked, amongst other things, to report on the financial organisation of the India Office; could you suggest any alterations for us from your experience?—Is that, if I may say so, rather bearing on the Departments or on the Council? The members of the Council, of course, are rather a separate matter from the staff organisation.

7680. I think our reference included both?—I could imagine that there might be use in individual members of the Council, each of them, having some individual province. I think possibly rather—

7681. Forgive me interrupting you, but perhaps my last answer might mislead you. You asked me if we had to deal with members of the Council; we are concerned only with them as they touch the financial organisation?—Of course, the practice differs at different times. Sometimes there have been members of Council with immediate Indian experience; then again there have been intervals without.

7682. When you were on the Finance Committee and chairman of that body, did you feel that you had in the ordinary course of the organisation as much Indian experience as you needed accessible to you?—Of course, the questions came forward from the Government of India in a very complete form, and there always must be serious responsibility in departing materially from their views on any purely Indian subject. An important side of the finance work was in relation to the home money market, the sale of Council bills, questions of issues, and of dealing with funds generally, and all this was apart from the consideration of purely Indian questions.

7683. Then your experience would rather lead you to say that what is required in the Finance Committee

here is what I may call London experience, the Indian experience being supplied by the Government of India?—I should say London experience is required for home affairs, but Indian for Indian affairs.

7684. I put the question to you, because one has become aware that a good deal of the criticism directed against the present organisation has its root in an impression, well or ill-founded, that London is over-represented in the Council of the Secretary of State, and that Indian interests are sacrificed to London interests?—I should demur to that, so far as my experience went.*

7685. (Lord Kilbracken.) I think when you were on the Finance Committee, you had always on your side a member of Council who had had first-hand experience of Indian finance and commerce and had spent many years in India?—Yes; that was rather as apart from purely official experience.

7686. I meant to exclude official experience; I was trying to describe a man who had had long experience of trade and financial operations in India itself. You always had a man of that kind as a member of your committee when you were chairman?—That was so, and that was exceedingly useful. I was at the moment thinking of political experience and official experience rather than of business experience.

7687. (Chairman.) From your experience would you say there was no ground for suggesting that owing to the character of the organisation, or for any other reason, the interests of the London money market were allowed to outweigh the interests of India?—That is so. I would say the principal way in which the interests of the London money market came in was as bearing on the question of issues—on raising money—which after all was one of the material and most important functions of the committee.

7688. In fact, it really came to this—could you or could you not, or under what conditions could you, raise the money that India required?—Yes.

7689. (Mr. Keynes.) I believe you have had business relations with Russia?—I have some business connection with Russia.

7690. Have you any knowledge of the working of exchange in that country?—The State bank provides exchange on certain occasions.

7691. How close an analogy is there with India in the matter of keeping reserves abroad and so forth?—I should think the main distinction is that London is so eminently the capitalist partner of India, much more so than it is of Russia, that the circumstances are not similar. Of course, Russia has to remit for its coupons mainly to Paris and in a lesser degree to London, but it is not dependent on London for its finance in the same degree that India is.

7692. I did not mean so much its relation to London as its relation to foreign countries as a whole; do you think that the system works out in detail very much like the Indian system or not?—I think that most Russian banks have credits with the leading houses in London and Paris, and the State bank is in a position to draw when exchange is required. I do not know the facts as to what reserves it may have.

7693. Are they credits in the sense that the Government has a right to overdraw, or are they sums left with these houses? Do you mean by a credit that the Government can borrow from these houses, or that it can use funds which it has temporarily placed with them?—I am not able to answer the question. I have no doubt at times it has very large balances with these firms in London and Paris; but, if those balances were to diminish, I should assume it could draw by arrangement; but this is a matter of special knowledge, which I do not possess.

7694. It is rather an important point in connection with the Indian problem, because the Government of India have either kept liquid funds, or else they assume they have to sell out their securities?—Yes, that is so.

* Note by Mr. Le Marchant: The ex-financial member of the Council of the Governor-General of India was a member of the Council of the Secretary of State, and of the Finance Committee, from 1899 to 1903, and was succeeded there by the ex-Secretary to the Financial Department of the Indian Government.

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7695. With regard to the establishment of a State bank, you say there are a number of practical difficulties in setting it up. Some witnesses have spoken of the practical difficulties rather, if I may say so, in the abstract, and I think it is important to bring them to a head and to know exactly what they are. Even at the expense of some recapitulation of what you said in answer to the Chairman, would you enumerate what appear to you the most significant of them?—I think the first difficulty is the risk of interfering with existing institutions, which conduct the trade of India with very great success. It is difficult for a State bank, if it has sufficient funds provided by Government, to limit its transactions. Of course, there are different ideas of a State bank; some are that it should practically confine itself to internal business in India, but on the other hand there is an idea that it should do a business on this side and control exchange.

7696. Are the other institutions you are thinking of exchange banks?—Mainly.

7697. You are not thinking of a case in which the State bank is additional to the Presidency banks?—I think it would be very difficult for it to be additional if it did precisely the same work. I believe that the exchange banks give liberal advances in India to their clients; how far the Government would be prepared to do the same business, I do not know. Then again it would be an important question on this side, what sort of representation the bank had; for instance, in the case of the State banks abroad, their representatives in London are the leading financial houses. It would make a great difference whether the State bank in India had as its representative one or two of the leading houses in London, or whether it had an office and a staff and business in London.

7698. Which would be the right way of doing it, in your opinion?—If you have an eminent London house as a correspondent, you have the advantage of their knowledge and their experience. It is difficult to compare different advantages together.

7699. If the State bank took over in London some of the work now done by the Secretary of State, that would really mean having an office, would it not?—Certainly; but if it did nothing more than that, I do not think there would be any advantage in conducting that which is not already enjoyed by the India Office. I should have assumed that in most of the original ideas of a State bank there was to be a large capital and business on this side, which would put the bank in more direct communication with the banking community and trade of London.

7700. These are your first two difficulties—the possible interference with the exchange banks, and the difficulty of finding the right way of representing the bank in London; what further points are there?—I attach a great deal of importance to the cost of having a sufficient number of branches in India to develop any business beyond the business now conducted by the Presidency banks.

7701. It has come out to us in evidence that the number of Government treasuries is much greater than the number of Presidency bank branches—I mean five or six times as great, perhaps?—It is some 270 odd against 35, I think.

7702. Would there be great expense, do you think, if the branches transacted the business now done at the Government treasuries in so far as related to holding the balances and the management of the paper currency?—Do you mean if the bank took over all the treasuries?

7703. Yes?—I have the impression that the officers in the treasuries are officers of Government, with pay and retirement, and whatever promotion Government may offer. If they become entirely officials of the bank it would be a very material change in their status, and an expensive one to the bank, I should think. I do not know whether it would be contemplated that the officers should remain officials of the Government and yet do the work of the bank.

7704. I am not trying to get solutions of the difficulties from you, for that would not be reasonable; what I am trying to discover are your *primâ facie* objections. That, I understand, is the third one—the

possible expense of setting up the numerous branches such as are contemplated. Is there any further difficulty?—I think all the incidents attaching to banking on a large scale have to be taken into account. There is, for instance, the question of advances; if they are conducted on a very strict scale I do not know that the bank would enter sufficiently into the commerce of the country to be of much use; if, on the other hand, they are on a very free scale, then there are all the attendant risks to the Government of being identified with business.

7705. I suppose you would agree that the Presidency banks at present are on a very strict scale?—I believe them to be so.

7706. Is there any further point that occurs to you at the moment on that head?—No.

7707. (Chairman.) I think, in answering questions of mine, you did say that you thought there was a danger of the bank becoming merely another Government department?—I think, in view of the responsibility of the Government for its actions and the probable presence of representatives on it, that, looking at the extent to which the railways have become Government property, there would always be some possibility of the bank becoming a Government branch.

7708. Did I rightly understand you to express the view that, even if it did not go so far as that, the responsibility of the Government would be still so much involved that they really would get no relief or little relief?—I think they might get some relief in the ordinary transaction of business, but still no doubt much attention would be required. It would mean Government officers and Government work.

7709. In the last resort, if anything went wrong with the bank, how would its failure be regarded? Who would be blamed?—I think it is customary to blame the Government whenever a case can be made out, and they would have to accept the blame, probably.

7710. You do not think it would be possible for them to wash their hands of the responsibility?—No, I do not.

7711. (Lord Kilbracken.) That responsibility would come ultimately on the Secretary of State in Council, would it not?—Yes, I think it would.

7712. And he would have to be responsible to Parliament for any part of the operations of the bank of which individual Members of Parliament might disapprove?—I expect so.

7713. (Mr. Keynes.) I do not propose to take you in any detail over this question of the State bank so far as its positive advantages go; but suppose there were strong positive advantages, do you think the kind of objections which you have been outlining are insuperable ones? Is not your point of view rather, here are these difficulties, and I see no great positive advantage in the thing, and therefore there is not much to be said for it?—It is very difficult to contemplate the exact working of an institution which is in the air. It is difficult to give a conclusive opinion on what one might call a project.

7714. Do you regard the sort of difficulties that you have been mentioning as of a very far-reaching kind?—I think, taken in the aggregate, they are.

7715. (Sir Robert Chalmers.) Still on the subject of the State bank, is there any local demand for a State bank in India that you are aware of?—No, I do not know that it would necessarily have come before me, but if I might transfer the question as to whether there is a local demand in London, I should have thought that the purchasers of Council bills prefer dealing with the Government through the Bank of England rather than through any other agency.

7716. As to the sale of Council bills, what would be your feeling, in the light of your experience and subsequent consideration of the matter? Would you sell Council bills when you want to, and have the funds in India, within specie points at whatever was the rate current?—Yes; with the view of fulfilling the object of selling Council bills to meet the expenditure against revenue in London.

7717. Would you sell sometimes below 1s. 4d. and sometimes above 1s. 4d., according to the market conditions of supply and demand?—Yes; of course,

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with the reserve of very much diminishing the sales in the slack season and not going beyond the trade demand.

7718. It has been put to the Commission by witnesses that the Government of India should undertake a definite obligation to support exchange by selling bills in India on London at 1s. 3 $\frac{3}{4}$ d. whenever anybody came forward and applied to buy bills at that price; what would be your opinion of such an idea?—I should have thought it was better to undertake no obligation, but to carry out any transactions of that kind which the Government found desirable.

7719. Does it come to this, that you in practice, as regards India, think as people do dealing with Russia and dealing with France, we will say; that is, that one should follow the market and not have any specific obligation at a specific price?—Yes.

7720. Take the alternative: Suppose that there were such an obligation, do you think that the Secretary of State could hold out successfully for 1s. 4d. at all times when selling Council bills in London?—He could be undersold by gold under certain circumstances, when, say, the Australian exchange or the Egyptian exchange was promoting the shipment of sovereigns to India.

7721. If that event happened, would it tend to this position of affairs, that he would not have sold his Council bills?—That is so.

7722. But he would have gold which he would have to ship?—That is so.

7723. Which would be an expensive operation on balance?—It would cost him about $\frac{1}{2}$ per cent. to ship it back.

7724. You would follow the market rates?—Yes.

7725. Do you think what has been called the initial hesitation of the Government of India in bringing forward its reserves to support exchange in 1907-8 had a certain moral effect of an unsatisfactory character? Do you think that people in India would have been happier if they had used their reserves immediately?—On the spot?

7726. Yes?—If the sterling drafts had been offered earlier that would no doubt have created a better feeling.

7727. (*Sir Shapurji Broacha.*) It is your recollection, as I understand, that the Fowler Committee intended that the Gold Standard Reserve should, at any rate as regards the major part of it, be in gold?—Yes.

7728. Have you any recollection of any discussion on the subject of the division?—No, I have not any recollection of it being discussed in the Committee.

7729. I suppose, in the first instance, the Government of India recommended putting a portion of the reserve into securities?—So far as I recollect that was so.

7730. Do you know that they repented afterwards, in 1909, and said that a substantial part of the whole amount, or the major portion of it, should be in liquid gold?—I think I have seen a letter which seemed to convey a different view from the view originally expressed.

7731. You are now of opinion that some of it may be safely kept in securities?—Yes.

7732. Did I understand you to say that would be five millions or 10 millions?—I suggested five millions or 10 millions for the gold as apart from the securities.

7733. Five millions or 10 millions out of 22 millions is not a preponderating part?—No, it is not.

7734. So that would be a departure from the intentions of the Fowler Committee?—To that extent.

7735. Suppose there were two crises, one in India and one in England, do you not think that the reserve being in securities would intensify the crisis and not mitigate it? Would not its being held in Treasury bills intensify and not mitigate the crisis?—I think, to some extent, any sales of securities do accentuate a crisis, whereas having gold and parting with that gold freely mitigates it; but it is a question of degree. If those securities run off, as, for instance, Treasury bills would run off of themselves, it would not be a sale, and there would be no withdrawal of gold

from the Bank of England. The obligations of the Secretary of State here are met, in fact, by cheque; they are banking transactions in the payment of interest and payment of contracts, and so on. The receipt of money through the running off of Treasury bills, and through the sale of securities, would not mean the withdrawal of gold from the Bank of England.

7736. But somebody has to find it; it is no help in a crisis?—It is no help; but then whoever holds the Treasury bills would equally be paid. It is no additional demand, and it is not a demand on the gold supply of London.

7737. But it is a demand on the Government at a time when Government can ill afford it. Take a time of war, or something like that?—But the Government would have to pay, whoever the holder was.

7738. Suppose the Gold Standard Reserves were all in gold, that would relieve the Government's necessity rather than aggravate it, would it not?—I demur to saying it would be aggravated by payment of Treasury bills. I think, if it is a case of withdrawing gold from London, it would aggravate it, but I do not think the ordinary current transactions through the banks come to very much.

7739. I am talking of a crisis and of the Gold Standard Reserve giving out gold instead of cashing its securities; would that not be better for mitigating the intensity of a crisis, while the other method would to some extent, though not altogether, aggravate it? As somebody has said, there is nothing like gold?—Of course you would have to take into account the period over which the payments have to be made.

7740. I am thinking of the worst time under the worst circumstances?—It is the case that a large store of gold if disbursed in a crisis would affect markets favourably.

7741. Are you in favour of uniting the Gold Standard Reserve and the Paper Currency Reserve?—I think that might be done eventually, but it appears to me that the purposes are different, though in many ways the Paper Currency Reserve is used for Gold Standard Reserve purposes.

7742. Now you have 24 millions in the Paper Currency Reserve and 22 $\frac{1}{2}$ millions in the Gold Standard Reserve, and they make together about 46 $\frac{1}{2}$ millions. If you add 22 $\frac{1}{2}$ millions to the Paper Currency Reserve then the 46 $\frac{1}{2}$ millions would always look a large sum whenever the recommendation was made to pay out gold for rupees; but if the money were kept under two separate heads, then, if out of the 24 millions in the Paper Currency Reserve you take 10 millions against currency notes or rupees, you think you have reached the danger point and that you should take time for reflection?—I think there is some advantage in keeping the systems separate.

7743. Two and two make four, but if you keep the two separate and you only withdraw from the one, that makes you think?—There are considerations in favour of separation.

7744. Do you know how many shillings a head in silver circulate in England; have you ever calculated it?—No. Of course it is a very different thing to the use of silver in India.

7745. Do you know that seven millions of rupees coined in five years only meant 1 $\frac{1}{2}$ annas per head per annum? That is not an excessive coinage, is it?—No.

7746. When you know that in France there are 25 rupees a head in silver coins circulating, then the seven rupees in India do not appear to be too large. According to the calculations of Mr. Keynes and others it is less than seven rupees a head now. A coinage of six rupees a head would not be an extensive coinage as compared with 25 rupees a head in France, would it? Then in Germany their Parliament has just passed a law to increase the circulation by another nine marks a head. Therefore, I think there is yet a good deal of room for the coinage of silver in India where the transactions are all in cash?—Certainly one may expect that there will be a demand for it.

7747. You would not call six rupees a head a great redundancy?—No.

* See Appendix V., page 170, paragraph 7.

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7748. Even what they are coining now is not a token coin, when you take the silver value that is in the rupee and bear in mind that one-third is put into the gold reserve. In France silver is 62*d.*, in England it is 61*d.* or 62*d.*, and in Germany the same. In India 28*d.* is put into the rupee, and, on the basis of 42*d.*, 14*d.* is put into the gold reserve; so it is not such a token coinage for redemption as some would take it to be?—You would not have a very ready market for your rupees. You would not be able to sell the rupees abroad with any very great facility.

7749. Nor would France her francs?—I quite agree with you. It has always been held that the French 5-franc piece is supported by the large gold reserves.

7750. So there is room for increasing the Gold Standard Reserve by coining more rupees, as there is no redundancy yet?—That is so.

7751. The policy of other countries is to conserve gold and not to dissipate it by giving it out; at what stage should we stop giving in India gold against the tender of rupees?—I do not think it is possible to lay down a principle in this connection.

7752. Do you think we might do the same as France or Germany?—In paying out the gold?

7753. Yes?—That might have the effect of causing a discount in the rupee; would not that be so, if a premium were put on the sovereign?

7754. No, I think the exchange point would be preserved. To go to another point; in the formation of the Finance Committee of the Indian Council, do you think it would be wise to put in every five years the Finance Minister who has resigned in India, because he would come fresh from his last five years' experience and so could help the Council?—I should rather doubt the wisdom of setting that up as a definite principle. He might not always agree with his successor in India.

7755. There has been an outcry that there are too many representatives of London interests and too few representatives of Indian interests on the Council—not that I say so myself. Suppose that a part of the selection were given to the Indian Government, do you think that would be a wise step to take in order to abolish the outcry?—I would rather follow out the idea, if I understand it rightly, of Lord Kilbracken, of inviting some one or more persons of Indian banking and commercial experience.

7756. Do you know the formation of the State banks of Europe, generally speaking?—Yes, generally.

7757. They have not taken much money from the Government, because if the Government have put in what comes from taxation on the one side, you will see they are indebted to the bank on the other side, and the one cancels the other?—That is so.

7758. An Indian State bank, without lending anything to the Government, would have to take charge of 50 or 60 millions of Indian money?—Yes.

7759. So it is not on the same basis as are the European banks?—No; and the needs and the requirements of the population are different, and the markets are different.

7760. What I am driving at is that these banks do not use much Government money, if they use it at all. There is Government money in the Bank of England amounting to 10 millions, and against that there is a Government debt of 11 millions; that means that the one cancels the other. So it is in France; 20 millions on one side and 20 millions on the other side, and the one cancels the other there. Therefore I think this instance is quite different. A State bank lends, but here the State can never depend much on borrowing from the State bank of India, because what the State would borrow from them would be its own money?—It would be so.

7761. So the two are quite distinct in that respect?—I agree with you.

7762. (*Mr. Gillan.*) The Chairman has put to you some questions about a gold currency in general and its effect in supporting exchange. I think we have had it in evidence, even from those who favour the gold currency, that there is not very much that Government can do immediately to encourage it, so that from that point of view the question might not seem to be a very

important one; but the ideal that we are to hold in front of us no doubt would influence the policy of Government in the various instances that came before them, and it may, I presume, be necessary for the Commission to say what in their opinion that ideal ought to be. It is on that point that I wish to ask you a question or two. The point that is taken, I think, as the chief reason for favouring a gold currency, is that it reduces ultimately the liability of the Government; while, on the other hand, people think that increases in the silver coinage increase that liability, and therefore they are unfavourable to any increase in the rupee coinage. The liability they speak of is the liability to find gold for silver when required?—It comes to that.

7763. In your opinion does the demand for gold in exchange for rupees depend chiefly on the balance of trade, or has it some relation to the amount of coin in circulation?—I think the demand for exchange on London, which was one form of giving gold for rupees when in 1908 there were some eight million sterling bills, had relation to the amount of money owed by importers or firms in India who had to pay debts in London and required remittance on London—of course they were able to pay for it, one may say, in rupees or notes. I think the form in which the payment was made would have some relation to the money in circulation, notes, rupees, or sovereigns.

7764. I will try to put it on the basis of some definite figures. Assume that the rupee circulation at present, we will say for the sake of argument, is 150 crores and the gold circulation is 25 crores. You have two alternatives. The rupee circulation may go on increasing in the first place; suppose in the course of the next 10 years it increases to 200 crores, and the gold circulation increases to 50 crores. That is the first alternative. The other alternative is that in some way or another the rupee circulation does not further expand, and you get at the end of 10 years the 150 crores of silver that you have at present, and, we will say, 100 crores in gold. At the end of the 10 years you get a crisis and there is an adverse balance of trade, we will say, of 50 crores. As I understand the point, there are those people who say that the liability of Government at that time will be the 50 crores of this adverse balance of trade, and that, as long as there are sufficient rupees in circulation to pay off that balance, the rupee being for the time depreciated in regard to gold, what the Government will get will be rupees and not gold. That is one alternative. The other alternative is to regard the liability that will then come on the Government as having some relation, as I say, to the constitution of the coinages in the currency, so that if you had increased in the meantime your gold circulation, your liability would be less?—I think if the gold is in the hands of banks or people who are at all likely to use it, it then is effective in diminishing the liability.

7765. Would it in your opinion be an advantage in these 10 years that I am taking for the purpose of argument, if the proportion of gold should increase in the circulation, or would it not in your opinion make much practical difference at the end of that time?—I do not think as an arithmetical point it makes much difference. As I said before, I think if it is gold largely in the form of what may be called *quasi* reserves at banks, for instance, or in the hands of leading firms, then it has a distinct effect in diminishing the liability; but if it has passed out into the outer circumference of the circulation, it leaves matters very much as they would have been. You have the lesser amount of rupees, as your rupee circulation will not be increased.

7766. Would not the constitution of those reserves with banks, and so on, that you are talking of, to a certain extent depend upon the constitution of the general currency?—Yes.

7767. Would it be likely to be affected by it?—How far they might find it to their interest to pay the gold out, how far the demand of the customers might lead to their parting with the gold and keeping very little, would depend upon their own principles of management; but assuming that it was fairly propor-

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tionately divided, and that the banks and the mercantile houses had their *pro rata* proportion of the gold, that is *pro rata* to the whole circulation, I should have thought then it would diminish the liability.

7768. So that in your opinion it all comes round to the policy adopted by the banks and the keepers of these reserves?—Yes. I think it makes a great difference as to what is the destination of the gold that goes into circulation.

7769. There is another point in the same connection. I think it is in the minds of those people who favour a gold currency that at present your safeguard against any fall in exchange or crisis, consists entirely of your reserves. The point that we have so far got to with this Gold Standard Reserve is that it should accumulate until it reaches 25 millions, and that when it has reached that limit the question should further be considered. I think some of the persons who support a gold currency are afraid that at some point or other the accumulation in the Gold Standard Reserve may be stopped. If that were done, any further increases in the rupee circulation would not be, so to say, protected?—Plainly. The one is automatic up to a certain extent, and the other depends on policy and management.

7770. Do you share that apprehension at all? To what extent would you favour what they call an effective gold currency?—I have not specifically thought of that particular risk.

7771. You see my point?—I do, and I think so far an effective gold currency (which of course is assuming a great part of the question) is the more satisfactory resource.

7772. There is only one point I wish to ask you in regard to what you said in answer to the Chairman about the organisation of the India Office. I think your general view there was that it is for the Government of India really to put the Indian point of view?—I think so.

7773. You said, I think, that it would be a great responsibility if the Secretary of State were on any occasion to overrule the Government of India?—I think on material questions, certainly.

7774. At the same time, that is a responsibility, is it not, which he does not shirk from undertaking when necessary?—It may be taken possibly after an amount of correspondence and communication, or there may be an approximation of views rather than a distinct overruling.

7775. But constitutionally it is the Secretary of State who is the final authority?—Yes.

7776. And he cannot, of course, on all points and in all cases accept the views of the Government of India?—Precisely.

7777. When a question comes home from the Government of India with their recommendation, it is possible that that question may affect other than purely Indian interests?—Yes.

7778. And it rests with the Secretary of State finally to decide that question?—Certainly.

7779. So that from that point of view it is very important, is it not, that there should be some representation of the Indian views at home in addition to what is urged by the Government of India in support of those views?—Of course nearly all the members of the Council are representatives of Indian views.

7780. I was only putting it in a general way, that it would be unfortunate if on any occasion there was not sufficient representation here of Indian views?—Certainly.

7781. With regard to the State bank, you know that the general policy of the State bank was approved, and strongly approved, by the Government of India and the Secretary of State when it was last discussed?—It was.

7782. That was in 1901?—Yes.

7783. They said they favoured the policy, but they thought the time was not very opportune for its introduction?—Yes.

7784. So they put it off with a recommendation that it should be revived, I think, as soon as practicable?—Yes.

7785. Can you state from recollection at all what were the conditions at that time which were unfavourable to a State bank?—No. I have an idea that the general basis of the proposal for the bank had fallen away. The original suggestions were suggestions on a very grand scale, and that appeared to have fallen out. I have no distinct recollection whether the Presidency banks had any decided wish for it, but they were consulted. The facts were more in the minds of other persons than myself.

7786. The idea of a State bank originally was more that it should be an instrument to help the Government in support of its new exchange policy; was that not so?—Yes, it was.

7787. And that rather fell away?—Yes.

7788. In your opinion, do you think that in the course of these 10 years the conditions for the institution of a State bank have become more, or less, unfavourable?—It does not appear to me there is the same occasion for supporting exchange that there was at that time. It appears to me that the Government policy, and the experience gained, enable exchange to be maintained without any adventitious systems. So far as that was one of the original reasons, I think that is much diminished.

7789. Would you say that the time has come, then, for some definite declaration as to whether a State bank is desirable for other reasons, or not; or is it a question that is likely to become more practicable in another 10 years?—I should rather doubt whether it would be. I should have thought the existing conditions of trade would probably continue, and that there would be no need for banking beyond the development of the existing institutions.

7790. There is an argument which I think has been put to us, that the Presidency banks have been in existence for a very long time, and that it would be dangerous to make any very large change, what I may call an historic large change. That argument would grow stronger, I presume, in the course of time, so the longer the question is left alone the more conclusive that argument would seem to be?—Especially if they develop in their business relations with the community. I think it would very much turn on whether they had generally strengthened their hold on the country, or whether it had diminished.

7791. (Lord Kilbracken.) About a State bank, have you thought at all about the practical question of what the constitution of the government of such a bank should be?—In the foreign State banks the president, as a rule, is, I think, a member of the Government.

7792. I mean, bearing in mind the peculiar circumstances of India?—I think it would require a strong directorate.

7793. Would that be forthcoming, do you think, in India?—I rather hesitate to give an opinion about the personnel in India at this moment. I should not like to say Yes or No.

7794. I venture to think there is no reason why you should not answer that question. We know what the circumstances are in India. Do you suggest that the directors should be handsomely paid for their work at the bank; would they have to give their whole time to it?—I think if the bank was to do a really active business in India, the directors must attend to it. The managers no doubt, would do a great deal of the routine work, but, arguing from the banks in London, I should say that the directors would have to work.

7795. Would there not be a practical difficulty in getting directors in India? Would you take directors from the men who are already on the spot for purposes of their own, or would you expect to have to import men from England especially for the government and management of the bank?—I should have thought the latter would be an unpopular course. It might fairly be said that they are not familiar with the circumstances of the people. You could hardly take them from the exchange banks.

7796. It has been suggested to us by more than one witness that this is a very considerable practical difficulty. How would you get the men to govern your bank and to manage it, unless under the supervision of

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Government? Does it seem to you that that is a large and important and serious difficulty?—If I might answer it in this way, when the project was originally before the Secretary of State the idea was that the Presidency banks would be amalgamated, and that consequently their experience in India would be at the service of the State bank and the Government. I do not know that the question of remuneration or time came up for discussion, but I take it that their directors were looked on as a nucleus of men who were familiar with Indian banking. If that passes out of consideration, I should have thought there would be a serious difficulty in getting men.

7797. I think to-day it is generally assumed that the State bank would be something altogether external to the Presidency banks?—I should think, then, that it would be a serious question.

7798. (*Chairman.*) On this point, supposing you create a Central or State bank in the first place by the amalgamation of the three Presidency banks, I presume you would contemplate that you would still require local boards in the Presidency towns?—Yes, certainly.

7799. But in addition to those, you would require a central board to supervise the whole?—Yes.

7800. Would it be possible, in the circumstances of India, to find such a board, unless you fixed the remuneration at such a point as enabled the members of it to make their place of residence where the head was located, and to give up their whole time to its management?—I should have thought that would be necessary.

7801. (*Sir Robert Chalmers.*) Would there be such men that you could find in India? Speaking generally, is it not the fact that mercantile men in India devote their whole time to their business and have very little leisure for other pursuits?—That is the idea generally entertained here, certainly.

7802. The general tendency is for men in commerce in India to go over there and work very hard, and then as they come to be senior partners of their firms, to come home?—Very often.

7803. But over there, men actually doing commerce on the spot are very fully occupied indeed?—I should think fully.

7804. That makes a very great practical difficulty in securing men with the necessary experience for this suggested work of the State bank in India?—Certainly.

7805. (*Sir Shapurji Broacha.*) Even if it were the intention of the Government at that time to make a bank by the amalgamation of the three Presidency banks, the shareholders would have to choose the board?—Yes.

7806. And the men whom they choose might not have the necessary experience?—Yes.

7807. You could not fix that board yourself without going to the shareholders?—It would be very difficult to do it, certainly.

7808. (*Lord Kilbracken.*) I should like to ask you a question about the machinery by means of which the India Office deals with finance, apart from the way in which the machinery has been used or worked. You are thoroughly acquainted, of course, with the India Office system and methods, and you have also had much experience of financial operations outside the India Office. I wish to address myself to you, not considering you as an ex-official, but as a man of much practical experience in financial operations outside the India Office. From that point of view, may I ask whether you have any fault to find, or any defects to indicate, in the India Office machinery?—No. I think the Office was fortunate in the men it had. Of course, to some extent, you may separate the men from the Office.

7809. That is what I wish to do as far as possible, but I agree with you that it is impossible to separate all of it?—I should have said that the duties devolving on the financial secretary, Sir Henry Waterfield, when I first came, and subsequently his successor, were certainly onerous, both as regards the variety and the general nature of those duties. I think the Office was fortunate in having men who would work so conscientiously. It would have been perfectly conceiv-

able that with the same machinery the work might have been less adequately done.

7810. That rather leads to the question: Can you think of any better?—There is one point, but not, perhaps, of any great magnitude. The financial affairs were, first, in the hands of Sir Henry Waterfield, and then of Mr. Abrahams, but, if I might say so, they had the advantage of an ex-official of the Treasury, yourself, who attended at the Committee always. I mean there was a certain amount of other official experience of a financial character, which was brought to bear on the subjects which came before the Committee, but which happened to be incidental—it might not be so another time. I think, under those circumstances, it must certainly be useful that the present Assistant Under-Secretary of State is a man who has had a long experience in financial work, so that his successor on the Finance Committee has the opportunity of consulting with him and devolving a certain amount of work upon him. I think in that way the mechanism for the financial work has been strengthened since I was here, and I think that, or some similar mechanism, is exceedingly important in order to cope with the necessary growth of work in the India Office.

7811. Of course we must take it as we find it, and we do not want to go back to the time of Mr. Abrahams' appointment as Under-Secretary. I am talking about the India Office as it stands?—I think some such system of having a man in that sort of position who can reinforce the financial department is a very important principle. I think the work otherwise very well divided. I think the Accountant-General had his immediate functions well defined. The functions of the store department were important, but I think equally the mechanism for that department was quite adequate.

7812. The store department do a very large business, and I think it has been done for many years with very little attention being attracted to it or blame?—Yes. Of course there were often communications of a minor nature from India as to stores, but I think the answers were always complete, because the system of testing and examination was so perfect.

7813. To go back to the machinery of what we call the finance department proper, do you think in matters which are really urgent it involves any unnecessary delay? Is there or is there not a means of dealing promptly with matters which are really urgent?—I think there are means. As I was saying, it depends on the occupant of the post. A person who always shields himself behind the Committee can always find occasions for postponing the consideration of any question; but that is not a necessary part of the mechanism.

7814. Are there proper checks and controls, in your opinion?—I should say that under the present system there are. I think that before there was rather a want of check, not so much on the action but on the way, perhaps, that papers were brought forward. Suppose, for instance, the preparation of all papers practically devolved on one man only in the Finance Department, as head, I think the Finance Department would be in a less fortunate position than they must be now when all that work can be checked.

7815. Do you think there are sufficient means of getting at the opinions of those who have first-hand experience of India, including that of the Government of India?—I should have thought there were.

7816. You always have, I think, on the Finance Committee, two or three men of long Indian experience representing Indian interests?—Yes.

7817. You said, in answer to Mr. Gillan, that the ultimate decision on these financial matters lay with the Secretary of State; would it not be more correct to say with the Secretary of State in Council?—Certainly.

7818. The difference is not altogether unimportant, is it?—No, I agree with you.

7819. (*Chairman.*) Did your experience lead you to think that the Indian Government is required to refer to the Secretary of State in Council unnecessarily on questions of detail; or, to put it in other words, is the

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control of the Secretary of State in Council unnecessarily minute?—I cannot recall any decided instance, but it is a very difficult thing to review 10 years. I should not think the mechanism is at fault, but the question is more than I can answer at the moment.

7820 Mr. Gillan put it to you that it was felt in some quarters that the enlargement of the gold currency in India reduced the ultimate liability of the Government, whereas an increase of the silver currency increased that liability. Suppose you had an absolute option of meeting a demand for an increased currency in India either by putting a million sovereigns into circulation, or by putting the equivalent rupees into circulation and the profit on their coinage into the gold reserve; which of the two courses would you favour? I am putting it to you purely as an instance of what you would do if the decision rested absolutely with you?—I think under existing circumstances the coining of additional rupees and putting aside gold in the reserve is the most effective course; but if, on the other hand, the uses of a gold currency so develop in India that it flows back to the centres with rapidity, which seems a question rather of time and not determined at present, I confess I should rather lean in the long run to the gold currency.

7821. But before you made your choice for the gold currency, you would wish for a change in the habits of the people, would you not?—Yes, I should. I should not endeavour to deprive those parts of India that use a gold currency of the use of it, but I should not attempt to force it in any direction, and I should take advantage of all information from the spot as to the extended uses of the gold that had been paid out.

7822. I want to ask you two or three questions on subjects which we have not yet touched upon. Several of the witnesses who have come before us have advanced the opinion that it would be desirable that the purchases of silver for coinage should be more steady and consecutive, and that Government should not wait until there was a great urgent need which lends itself to the market being cornered against them; what would you say to that?—I do not think it possible to have a completely regular routine of purchases. It is plain, in a country where the monsoon determines the circumstances of the year, that in a very favourable year the demand for currency may be extreme, but it would be easy to accumulate a useless pile of rupees by adhering to some strict system. I do not think it would be possible to go on what was the system at one period in America, that is to say, buying and coining so much silver a year.

7823. Do you think that in recent years the Secretary of State has erred on the other side, or not?—Of coining too much, do you mean?

7824. No, of waiting too long before he purchases his silver?—It is rather difficult for me to answer your question categorically, because I was not here at the time you refer to, and I am not absolutely familiar with the dates. If the rupee portion of the Paper Currency Reserve was kept to an adequate figure, on which there was some correspondence between the Secretary of State and the Government of India comparatively recently, I should have thought that there would be time for the purchasing, shipping, and coining of whatever might be required.

7825. (Sir Robert Chalmers.) Between the call for rupees and the time when you can provide the rupees, is there not a kind of buffer provided in the Indian portion of the Gold Standard Reserve of 6 crores?—Yes.

7826. And that, in your opinion, would be its justification, I suppose?—Yes. I do not know that it makes a difference whether it is there or in the Paper Currency Reserve; but I was viewing an aggregate of from 17½ to 24 crores of silver according to the time of the year.

7827. That is, to take another way of looking at it, a certain measure of till money to meet special demands?—Yes.

7828. (Chairman.) You are aware, I think, that the balances both in India and in this country have been unusually high of recent years?—Yes, they have.

7829 And you would be aware, of course, that the

Secretary of State has largely withdrawn the surplus money from India and removed it to London?—Yes.

7830. Do you think he was right?—It appeared to me that it was hardly a withdrawal in quite the ordinary sense of the word. By selling Council bills it was a transfer from the Government treasuries to the mercantile world to whom those rupees were paid; so it was a change of hands. No doubt it diminished the power of the Government to use that money in any other way in India, supposing they had any project of public importance that they could have paid it out for, as that money was then removed from their control.

7831. Supposing that they brought it to England with the intention, as early as possible, of either redeeming debt in London, or of preventing the creation of new debt, would you think they were justified?—Yes. I should say it came under the general question of the policy of using surplus revenue either to reduce debt or to avoid the contracting of debt.

7832. Do I understand you to think that was a wise policy in the circumstances of India?—Yes. I can understand another view being entertained of that question of policy. The existing policy has very considerable advantages.

7833. What is the alternative that you can see?—The alternative would be to borrow more largely in sterling for railways and for permanent works, but then we know that the markets were not favourable to larger borrowing and it would add to the burden of sterling debt.

7834. In that way you would have got the sums which were transferred to London by the sale of Council bills on India?—Yes, if the money was not obtained by sale of Council bills, it must have been raised by loans.

7835. What would you have done with the sums which in that event would have been retained in India?—There are works of a local kind in so large a country on which the sums retained in the Indian cash balances could be applied; but still, that would be a marked deviation from the policy up to date.

7836. But whether held in India or transferred to London, you would have taken advantage of the money to carry out some development work?—Yes.

7837. I do not think, when you were on the Finance Committee, or its chairman, your balances in London were ever so large that you had any difficulty in loaning out the surplus?—No.

7838. You are aware that in recent times they have grown so large that the ordinary approved list of borrowers was unable to take the whole of the money the India Office had to lend?—Yes. I think that may be partly owing probably to the fact that there are fewer borrowers of gilt-edged securities than there used to be. Formerly such a very large amount of Consols, India stock, and similar securities were held to run against money, but I think that is diminishing in these years; and, besides, there is the increase in the balances.

7839. The difficulty having arisen, the Secretary of State lent the money to certain London bankers, and it appears that he lent it without security; do you think Government money ought to be lent, even to the highest class institution, without security?—I do not think the banks would have taken it on the terms they gave if the question of security had been raised.

7840. I think the County Council lends money sometimes and exacts security?—It does. That is rather a long-standing arrangement with a particular bank.

7841. Is there any observation you would like to make to us which has not been elicited by the questions we have put to you?—No, nothing, thank you, personally.

7842. (Sir Ernest Cable.) I think Mr. Gillan was discussing with you the question of an effective gold currency. From that, I think, arises the further question whether the sovereign is a suitable circulating medium for the people of India, bearing in mind their poverty and other circumstances. What are your views on that?—Certainly there seems evidence that in certain parts of India it does circulate and is very eagerly applied for—I am assuming, from the reports, not with

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an immediate view to hoarding or melting down. I would rather base my view on those facts, and say that for a considerable number of the community of India it does appear to be a convenient coin; but I quite believe that for a large portion it never can be.

7843. It has been suggested as an alternative that a 10-rupee gold piece should be coined; would you favour such a coin being in circulation at the same time as the sovereign?—I should have thought there might be some confusion, and that it would not be available for exportation on favourable terms, but would only be taken over, say, at its pure gold value, or slightly above, perhaps. I should have rather doubted whether it would bring out gold from hoards for the purpose of circulation.

7844. It might also, perhaps interfere with the circulation of the 10-rupee currency note?—Yes, of course, it would directly compete with that; and that appears to have gained ground in a satisfactory way.

7845. Some comment has been made to-day on the difficulty of forming a board for the suggested State bank in India; the present three Presidency banks are managed by local boards, and as far as you know they are well managed, are they not?—Certainly.

7846. The question, however, that was put to you was narrowed down to the question of the one central board?—Yes.

7847. (Mr. Gillan.) With reference to what you said in answer to the Chairman just now on the subject of a gold currency, I understand you contemplate that it is possible that the stage might be reached at which the gold in circulation will come back to the centres?—Yes.

7848. It is not clear to me how that stage would be reached. I can understand it being reached *per saltum*, with a sudden conversion of the currency, or something of that sort, but if you are only working to it gradually, as long as you have got a very large

volume of rupees in the country, is it not those rupees that will come back, and not the gold? If you start with this volume of silver currency of 150 crores or 200 crores, whatever it may be, does it make any real difference whether the gold in circulation is 25, 50, or even 100 crores? How do you get over that intermediate stage?—I should have thought that if the country was saturated with gold, if the gold was a very large proportion, its mere weight, as it were, would drive it round through the channels of circulation. I have noticed one criticism made on the gold currency is that it flows back quickly to the treasuries, post offices, and railways. It is said that that is a proof that the population do not want it. I am taking this fact as some evidence that gold is not necessarily retained, and it is likely that the circulation of it will develop, at all events in the parts of India referred to.

7849. No doubt it would go on developing, but is the process not reversed every time you get a crisis?—That it would be hoarded on that occasion, or kept back, rather?

7850. Yes?—I should have thought that depended on the development of the rise of gold in circulation.

7851. So that you are preparing for a gradual change in the habits of the people; that is what you are anticipating?—Following on what they have done already.

7852. (Sir Robert Chalmers.) If I followed your earlier answer aright, you are contemplating a system in which banking, as we understand it in this country, would play a much greater part in the habits of the people?—I think that would be a material assistance. I think the development of banking—not necessarily large banks, but local banks—would be of very great use.

7853. You are contemplating a time when every man, to use your phrase, ceases to be his own banker?—Yes.

The witness withdrew.

Mr. L. G. DUNBAR called and examined.

7854. (Chairman.) You are Secretary and Treasurer of the Bank of Bengal, I believe?—Yes.

7855. Will you tell us briefly how long your experience of India has been?—I went to India in January 1886. I have been 26½ years in the service of the Bank of Bengal.

7856. We have had referred to us a series of questions, and I would like to take you through some of the points that arise on them. Have you any criticism to make on the size of the balances either in India or in London in recent years?—That question has been gone into by the Bengal Chamber of Commerce, and they addressed a letter dated the 28th May* to the Secretary of this Royal Commission on the subject. They generally approve of the action of the Government in the matter.

7857. Am I to take it that you concur generally in the opinions expressed by the Bengal Chamber of Commerce in that letter?—I do.

7858. As regards the balances in India, some criticism has been addressed to us suggesting that the time of the collection of the Government revenue, and the delay in its disbursement, injuriously affect Indian trade; do you share that feeling?—It is no doubt the fact that a considerable sum of money is locked up in the Government civil treasuries, but the exception that is taken in India is, as far as I know, to the reserve treasury balances, which are unduly large. The amount required to make the rates a little lower in India is, I think, quite a small sum, comparatively speaking.

7859. You speak of the sums in the reserve treasuries as being unduly large; are you putting that as the general feeling in India, or is it your own personal opinion only?—I think it is the general feeling in India.

7860. And you share it?—There are a very large number of treasuries and sub-treasuries, and one

realises that there must be a certain balance kept in each one of them. Owing to the very large number of these treasuries, the aggregate balance must be large. But the reserve treasury is a mere "stocking."

7861. Setting aside for the moment the question of the creation of a State bank, to which I will come presently, do you think that the Government of India could afford to do without the reserve treasuries?—I think the amounts in the reserve treasuries should be made available to the Presidency banks, or a selected number of bankers, for loans when required, at a moderate rate of interest.

7862. You do not think a very large sum would be required for the purpose, do you?—I do not think so.

7863. Would you propose that the Government of India should not lend to anyone except the Presidency banks?—Only to approved bankers.

7864. Then that would mean the Presidency banks, or would it include certain joint stock banks as well?—It would include some few others. The Exchange banks could put up security if necessary.

7865. Would you expect to get loans without security, or would you anticipate that the banks would be called upon to deposit security with the Government?—I think the banks should be called upon to deposit security with Government.

7866. What sort of security?—3½ per cent. Government paper.

7867. You say you expect the money would be lent at a reasonable rate; what sort of rate have you in mind?—I think if Government would lend at 4 per cent. per annum the bank rate in India would then never go above 6 per cent. The 2 per cent. trading profit would be quite fair to the Banks.

7868. You do not think a 2 per cent. profit is rather a large one?—I do not—not for the risk of lending in India.

7869. Would you think it wise that the Government of India should take bills for this security from

* See annex to Appendix XXVI., page 601.

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the banks, or would you confine them absolutely to Government paper?—At present I would confine them to Government paper.

7870. Do the banks carry, or would they carry, enough of that Government paper to enable them to obtain the sums required?—I think so. If any bank happened to be short they could come and borrow from the bank that had the paper.

7871. You suggest that the Government of India should lend at a fixed rate irrespective of the bank rate at the time?—That was only because I hear that people complain about the idea of the bank rate going up to 8 per cent. If the money was available from the Government at 4 per cent. I do not think the bank rate would ever then go up above 6 per cent.

7872. Suppose the Government were to say that within certain limits they would lend at 1 per cent. below bank rate?—The Bank of Bengal I do not think would ever take it. I do not know about the other two Banks.

7873. You do not think the difference of 1 per cent. would make it worth while to take it?—I am not sure that the Bank of Bengal would ever require to borrow even at 4 per cent. One cannot foretell, but we have not borrowed for six years.

7874. (*Sir Robert Chalmers.*) What has the bank rate been in that sort of time; what is the maximum?—It was 9 per cent. for six weeks in 1906, and it was 9 per cent., I think, also in 1908 for about six or seven weeks, but since then it has never been above 8 per cent. In 1908, I believe, the price of the crop which comes into the market about that time—rice—was very dear, and more money was required than usual to finance it.

7875. (*Chairman.*) Apart from your desire to see a certain amount of the surplus balances made available in this way for trade purposes, do you offer any other criticism on the management of the finances in recent years?—That is rather a large question. I do not think the chamber of commerce has found any other fault.

7876. In regard to the Gold Standard Reserve, do you concur in the opinion expressed, I think, by the chamber of commerce that it ought to be held in London?—I think it ought to be held in London and invested—not in gold.

7877. As regards investment, do you suggest that the whole of it should be invested?—I think the chamber of commerce say about five millions should be kept in gold and the balance invested.

7878. How do you arrive at that figure of five millions?—I take that as the amount that might possibly be required before the sale of securities became necessary.

7879. On the whole, would you agree with me that the experience of recent years has shown that the sale of securities of the first class is not always such an easy or certain operation as we used to think?—Yes, quite so.

7880. Having regard to that, do you think that five millions is a sufficient margin to allow in gold?—Opinions vary. This was discussed at the meeting of the chamber of commerce at which most of the leading merchants of Calcutta were present, and I think the words are “a sum of not less than five millions.” Some wanted to say “not more than five millions.”

7881. Is it your personal opinion that it would have been better to say “not more than five millions”?—I do not profess to have any special knowledge on the subject, but I was in favour of “not more than five millions.”

7882. Of course that would mean that in any crisis you would have to sell securities?—Not necessarily. There are always a large number of sovereigns in the currency reserve. We could transfer the securities to the currency reserve and take the sovereigns out of it.

7883. Could you do that without an alteration of the existing law?—I cannot say.

7884. At the present time is it not the case that the amount of the securities that can be held in the currency reserve is strictly limited?—You are quite right, it is strictly limited. Government would have to pass a short special Act for the purpose.

7885. So that in arriving at five millions as the amount to be held in the Gold Standard Reserve in London, you rely for making up any possible deficiency on the gold in the currency reserve?—At present I would, as there is plenty of gold in the currency reserve which is not required.

7886. If the gold in the currency reserve fell off, would you think it necessary to revise the limit of five millions of gold to be held in London?—I would not personally. It would depend whether Government could borrow against securities in London instead of selling them. If they could borrow at a reasonable rate of interest, I would always do that in preference to selling.

7887. I suppose your object in desiring to invest as large a proportion as possible is to earn interest instead of having the money lying idle?—Simply to earn interest.

7888. You would agree, I presume, that if you are to have a Gold Standard Reserve at all, the first thing to aim at is that it should be sufficient for the purpose for which it is established?—Yes, quite so.

7889. Security is more important than profit?—Well, yes.

7890. It is a question of degree, in your opinion?—Yes, it is a question of degree. I agree with what the Chamber of Commerce say, that it would be a very unbusinesslike proceeding to have all this sum lying idle.

7891. Do you think it would be a good banker's proposition, having regard to possible liabilities, to have only five millions in cash?—I personally think so.

7892. You are, of course, cognisant of the existence of the Indian branch of the Gold Standard Reserve?—Yes.

7893. Which is held in rupees?—Yes; four millions sterling or six crores of rupees.

7894. Do you see any objection to that?—I personally see no objection to it.

7895. The Fowler Committee made certain recommendations which have been accepted and acted upon by the Government, and some others which have not been followed out; amongst other things they recommended the establishment of a gold currency—what is your view about that?—I am opposed to a gold currency as not required in India, and as a wasteful and expensive luxury.

7896. With regard to the gold which finds its way into circulation in India, have you formed any definite opinion as to how much remains actually available as currency?—It is impossible to express an opinion. My own opinion is that India is very much more prosperous than it was; the people are better off, and the ladies of the country, who must be a very large number, say 150 millions, are now wearing gold jewellery rather than silver jewellery; only the poorest class have silver jewellery now.

7897. You think then that a great deal of the gold, at any rate, that has gone into India, is not in circulation?—In the last four years India has had large crops, which have been sold at high prices. My own opinion, judging from what one sees—of course, the better class of women are not exposed to view in India—is that gold jewellery is now much more extensively worn than formerly; and in my opinion that is where a good quantity of the gold has gone.

7898. As far as currency is concerned, do I understand your view to be that the rupee is a more convenient form of currency for India than the sovereign?—It all depends upon whether you take the view of the receiver or the view of the buyer of the grain. The buyer of the grain who has to transport this money about the country prefers the sovereign; but I think the receiver, the seller of the crop that has been marketed, prefers rupees.

7899. The buyer prefers the sovereign as being handier to move?—Yes, and to count, and handle.

7900. From that point of view the note is better still?—Yes, it is, but there is the difficulty of getting it cashed. There are very few places where it can be encashed throughout India at face value.

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7901. The note circulation has risen very markedly in the last few years, has it not?—Very much of late years.

7902. I suppose that has been largely stimulated by the greater facilities that have been afforded in the way of the universalisation of the smaller notes?—I think so to a certain extent. I think the increase of the note circulation, which has gone up from 46 crores in 1909 to 66 crores in 1913, that is, in four years, is merely indicative of the increasing wealth of the country. It means that 22 crores more floating capital is available in India.

7903. Does your bank attempt to encourage the circulation of notes in preference to other forms of payment?—In Calcutta and anywhere else where there is a currency office, such as Cawnpore and Lahore, we deal almost exclusively in notes; but in a place like Dacca, where there is no currency office, it is all rupees. The rupees are a great inconvenience to the bank; they are very heavy, and they cost a considerable sum to transport about, so we do all we can to encourage notes.

7904. You would like to see an increase in the note circulation?—Yes, I think so.

7905. Could Government encourage the circulation of notes any more than it does?—Yes, by opening more currency offices.

7906. Could it encourage it in any other way than that?—There is a lack of civility on the part of the subordinate Government officers. People prefer to deal with the bank rather than with the currency office.

7907. Does that affect the question of whether they get notes or rupees?—I do not think the ordinary person will go to a currency office if he can help it. He prefers to deal with a bank. I am speaking very generally; of course there are many exceptions.

7908. Does the Government ever offer inducements to you to take gold rather than notes?—They have not offered any inducements on the Bengal side to take gold at all, and there is very little gold in circulation there.

7909. But elsewhere?—Elsewhere they offer us inducements to take gold rather than rupees.

7910. Will you tell me in what way?—For instance, at Lahore, at Agra, and at Delhi, to my certain knowledge when we take a currency transfer from Calcutta when money is wanted in those three places, if we take it in rupees there is a charge of $\frac{3}{8}$ per cent. premium; but if we take it in sovereigns there is a charge of only $\frac{1}{32}$ per cent. premium, so that traders get the money from us in gold at $\frac{1}{16}$ per cent. less than we charge them if they take it in rupees.

7911. (Mr. Gillan.) In what centres is that?—The three places I know are Lahore, Agra, and Delhi.

7912. (Chairman.) Do you know the reason why the Government should make that distinction?—I understand that the Accountant-General at Bombay got alarmed at the very large influx of sovereigns, so he sent large remittances of sovereigns to those three places and others; to get rid of sovereigns at those places this inducement is offered.

7913. To that extent the Government of India is actively using its influence at those centres to put gold into circulation rather than rupees or notes?—I do not know whose orders they are; I understood it was the Accountant-General of Bombay, but I suppose the Government of India must have approved. It is outside the Accountant-General of Bombay's province, but the sovereigns came from Bombay.

7914. (Mr. Keynes.) Is this recent—within the last year or two?—I am not certain when it began; I should think it was fully a year ago.

7915. Does it go on now?—It was going on when I left India.

7916. (Chairman.) So far as it goes on, it would not be correct to say that the Government of India is purely neutral in the question of what form the currency would take, and gives the people whatever they ask for?—This is a transfer of money from the buyers of crops in Calcutta to these outlying places, and Government offer an inducement of $\frac{1}{16}$ per cent. to anybody who will take gold at these three places.

They may do so at other places, but I do not know about it.

7917. In the part of India with which you are mostly concerned, is there any growing demand for gold?—The people are well acquainted with gold, but I am not aware of any demand for gold. They will take notes now in Burma, and there is little demand for sovereigns there.

7918. As far as you are concerned, would you prefer to see the Government of India encouraging the issue of notes and rupees, or would you like to see them encouraging the issue of gold?—I am not a believer in a gold currency, therefore I should prefer to see them encouraging the use of notes.

7919. Do you think that gold currency, or gold in the other forms of which you spoke earlier, would be of much value for the maintenance of exchange in the case of a crisis?—We must have a gold standard. It is the gold currency that I think is unnecessary.

7920. I was assuming that you required to maintain the standard. Do you think that gold in the currency, or the other gold in India of which you spoke which is used as ornaments, would come out for the support of exchange in a crisis?—Gold as ornaments certainly would not. I do not think the private gold would come out at all.

7921. Therefore for the purposes of exchange you would prefer to have the gold in the currency reserve, but not in actual circulation or hoards?—That is so.

7922. Now I come to the question of the State bank. Your directors have addressed a letter* to the Commission, in which they are good enough to say that they desire to place your expert knowledge and experience of finance and banking in India at the disposal of the Royal Commission; but they wish it to be clearly understood that any opinions expressed by you are your own personal views, and cannot in any way be binding upon the Board of Directors or the shareholders of the Bank of Bengal. They add, however, that they have authorised you to say that they agree with the broad principles enumerated in the letter of 28th May 1913 from the Bengal Chamber of Commerce,† of which you have already spoken; and they go on to say that if the Commission pronounce in favour of the principle of a State bank for India, formed by the absorption of the three Presidency banks under a reconstructed bank, the directors will in consultation with the Government of India at once take steps to formulate a scheme, and to lay a scheme before their shareholders for their consideration and approval. Your directors do not express any opinion there as to whether it would be desirable in the interests of India that there should be such a State bank formed; would you let us have your views on that point?—My directors did not wish to commit themselves to anything until they heard what part of the banking business done by Government was to be made over to the State bank, and on what terms. At present when we do work for Government they pay us what they call our out-of-pocket expenses, and there is very little in it.

7923. You have the use at present of considerable balances free, have you not?—We do an enormous amount of work for it—we keep up a very large establishment. I have got the figures here. Our establishment costs Rs. 240,000 a year, and we pay Rs. 23,000 for police guards to guard the currency chest which the bank keeps free of charge at our branches.

7924. You would not like to lose it?—That is a very different thing.

7925. I suppose if there were a State bank it would take over all the Government balances?—I think it should.

7926. And I suppose it would have to take over the management of the note issue?—I think so.

7927. Very probably it would do the business now done by the Secretary of State in London in the sale of Council bills and transfers?—I think a London office of the State bank should be established.

* Printed as supplementary note to Appendix XXV., page 596.

† Printed as annex to Appendix XXVI., page 601.

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[Continued.]

7928. Do you think it ought to be allowed to do business outside the requirements of the Secretary of State?—A proposal of that kind would meet with the combined opposition of the exchange banks. I think the State bank might be safely permitted to purchase sterling bills to the extent of, say, 20 millions a year to meet the requirements of the Secretary of State in London.

7929. You would not think it necessary to allow them to deal in exchange outside the requirements of the Secretary of State?—The exchange business is the cream of the Indian banking business; it is the best of it.

7930. What sort of capital do you think such a bank would require?—I put it down at five millions sterling.

7931. That is just about the capital of the present Presidency Banks, is it not?—The capital and reserves of the present Presidency Banks.

7932. On the establishment of such a bank would much more capital become available for Indian trade development?—All the Government money, or a considerable portion of the Government money, would be available. It would make the rates of interest lower in India.

7933. Do you think that the Government of India could safely entrust the whole of its balances to a bank with no larger capital than that?—Managed as the Presidency banks are at present, I should say: Yes.

7934. Perhaps you would consider it would be reasonable that the Government of India should require representation on the board?—Certainly.

7935. I suppose it would be necessary to maintain local boards in the different Presidencies?—I think so.

7936. And then you would have a central board sitting somewhere?—In Calcutta.

7937. Is that a *sine qua non*?—Yes.

7938. How would you propose to form that board?—There would be our Calcutta directors, and Bombay and Madras would be asked to send a director to this central board; whether they would or not I do not know.

7939. Do you think it would be easy to get and maintain a fair representation of other districts on a board which sat in Calcutta?—Calcutta is the most important town in India, and the richest and most prosperous district, and it is difficult to believe that the central board could be anywhere else.

7940. I was not intending to dispute that, but my point, as you can see, would apply equally wherever you placed the central board. What has been put to us by some witnesses is that India is so vast a country and the business men who are there are so busy with their own affairs that it would be impossible for them to meet in one central place and there to control the affairs of the bank?—That would be impossible.

7941. You think if you had a bank the supreme board would have to be for those reasons a Calcutta board?—It would have to be a Calcutta board in my opinion.

7942. Suppose that such a bank were established, and you had one or two Government representatives on the central board, ought it to have through them a right of veto?—If those duties which you have just enumerated are handed over to the new State bank, I think the Government directors should be in a position of very great authority.

7943. Of course in that case the responsibility of Government would be both very real and very great?—It is a question whether Government would be responsible. The Government directors would be acting on behalf of the Government, but I do not think the Government should take any responsibility to the public.

7944. Could they divest themselves of responsibility in the eyes of the Indian public, if directors nominated by them sat on the board and played an important part there?—I am not quite prepared to say what the Indian public would think. I do not believe the Indian public would think anything about it. They would merely know that the bank was controlled by Government directors.

7945. In your opinion would there be great advantages to India from the creation of such a central bank?—I think so, I have read the remarks of Mr. Abrahams* and also of Mr. Keynes† on the subject, and they have put the case very fully and fairly, I consider.

7946. Do you think such a bank would increase the actual banking facilities in India?—I think, including all the banks in India and the great banking community of the shroffs, that the banking facilities in India are already pretty complete. The difficulty on the Bengal side that we find is reliable borrowers to lend to.

7947. One reason for the maintenance of so many Government treasuries is the absence of bank branches which might do the business for them, is it not?—India, as you have just said, is an enormous country. At the majority of the places where Government treasuries are established there is little banking business possible, not sufficient to pay the expenses of a branch; but the Government need their treasuries all over the country as revenue-collecting centres.

7948. Then to that extent the creation of a State bank would not relieve the Government of the necessity of maintaining these treasuries?—It might in the case of a few of the bigger treasuries, but not in the case of the great number of sub-treasuries.

7949. Is there much tendency on the part of the banks to extend the number of branches?—The tendency, I think, in India is for the finance required by trade to be more and more concentrated in the seaports; these up-country places are dying away, with the exception perhaps of Cawnpore, which is a manufacturing place, and one or two places on the Bombay side.

7950. Have the banks made any serious effort to attract to themselves the hoards of the people of India?—The Bank of Bengal used to offer 4 per cent. for deposits fixed for 12 months. We got far more than we could employ, and we had to reduce the rate to 3 per cent. per annum; 3 per cent. is all we pay for fixed deposits, and we will not take deposits for short periods.

7951. Does that apply to the busy season as well as to the slack season?—The busy season is such a short period. We never borrow now for short periods even in the busy season.

7952. (Sir Ernest Cable.) You have branches over a large area in India, have you not?—A very large area.

7953. Do you find in the management of your branches difficulty arising from the fact that you are dealing with a large number of different people with different interests, languages, and so on? You run from Burma, on the one hand, to the north-west; do you find it hard to manage such a large area?—I do not think so. We send trusted agents to the various places, and the man on the spot is given a certain amount of control, under the strict supervision of the head office and directors; but what he does we really do not know of until, say, several days later, when his returns reach the head office.

7954. But you do not find a difficulty in managing the bank under such conditions?—No, I think not.

7955. So, from that point of view, the large area involved would be no difficulty in the case of a central bank?—I do not think so at all.

7956. You said that the cream of the business in India belonged to the exchange banks, did you not?—I meant to say that the finance of the foreign trade of the country was the cream of the business in India.

7957. I only put that to you because I understand that the exchange banks are engaging in local business as well?—So they are. We have had to reduce our rates in Calcutta for advances to jute mills to half per cent. below the bank's published minimum in order to compete successfully with the exchange banks.

7958. I always understood that the exchange banks used to think the cream of the business was the local business?—No. Look at the enormous profits they make.

7959. It would be a *sine qua non*, I think you said, that Calcutta should be the head office of the central

* Appendix XIV., page 339.

† See Indian Currency and Finance, published by Macmillan 1913: Chapter VII., paragraphs 28–31.

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bank. If the scheme were retarded, or perhaps even vetoed, by reason of local jealousies between the Presidency towns, would you not concede the point that some neutral city should be the head office?—I do not think so. In my opinion Government should approach the Bank of Bengal and ask the Bank of Bengal to submit a scheme for a State bank. We would then approach the Bank of Bombay and the Bank of Madras, and, I think, personally, also the Allahabad Bank, the Alliance Bank, and the Delhi and London Bank, with what would be considered fair terms of absorption. Then if the banks do not choose to take them they can stay outside.

7960. Then you would suggest an amalgamation of other banks besides the Presidency banks?—That is my own personal opinion. The State bank would want more men and more offices.

7961. You have suggested, I think, in your memorandum that a central bank should undertake the management of the Gold Standard Reserve; do you mean by that that the bank should undertake the responsibility of maintaining exchange?—No; we would simply hold the fund.

7962. You would be the custodians of it?—Yes, and we would show the balances every week in our weekly statement.

7963. Has it ever been considered whether the Government of India should issue local Treasury bills if they happen to be short of money at any time?—I have heard it mentioned by brokers and other people. Mr. Reid, a broker in Calcutta, has several times, I understand, been to see the Comptroller-General about it, but I have never heard that the Government have any intention of doing so.

7964. Do you think that they could raise money in that way if they wanted it for short periods?—I think so; or they could overdraw from the Presidency banks at a very moderate rate of interest.

7965. One of the reasons brought forward for the establishment of a central bank is that it would form a link between what might be called the great banks of the country and the agriculturists, that it would link the various money markets together, and that the central bank could undertake the task of lending to agriculturists, perhaps through co-operative societies; would that be possible?—Yes. The Bank of Bengal will only deal with the central co-operative societies—I am not quite certain of the names—and only then if they are guaranteed by their directors, who are men of a certain standing; and these societies lend to village banks. So we already do that business.

7966. At present the Presidency banks tender for Government loans, and presumably they sell them out gradually at a profit; that, I suppose, would not be possible if one central bank were formed, as it would be a Government institution?—There is a very large investment demand in India for Government paper. The ordinary investor quite knows the danger of buying bazaar paper, that is paper from the bazaar, so he comes to the Bank of Bengal—and it is a very large business on our side—and he buys paper direct from the Bank of Bengal; he then knows his title is good. We charge him 6 annas or 4 annas above the market rate for our good clean paper free of law suits.

7967. The issue of new loans is, of course, a source of profit; the Government would get that if the central bank issued the loans?—It all depends. The Government can deal in Government paper, as we do, through the central bank, or else it may do as at present—ask us to tender for the loan, accept our tender, and let us do the dealing.

7968. Do you agree with the suggestion that the central bank must inevitably become a Government institution?—I do not say that it should be a Government institution. I merely say the Government should be represented on the board of directors, and strongly represented.

7969. The staff would not be Government officials?—No.

7970. (Mr. Gladstone.) I think you said that you would limit the securities to be given for Government loans to 3½ per cent. paper?—Perhaps I was wrong.

That is the only trustee security in India, but first-class municipal debentures might be taken.

7971. Under the Bank Act you are allowed, are you not, to take port stock and municipal stock?—Municipal and port trust debentures.

7972. Would you include those?—Yes, they ought to be included.

7973. We have heard something about the way in which money can be more easily raised now on loan in India. It is the fact, is it not, that the Presidency banks are allowed to advance on certain railway securities, local companies not directly guaranteed by the Government of India, according to a schedule which they publish from time to time?—Yes.

7974. Perhaps you would favour those securities being included?—Personally, I would not.

7975. Do you not lend on those securities?—We are authorised to do so. There is one, the Darjeeling-Himalaya, which is looked on as very good. Loans depend upon the character of the borrower.

7976. Raising capital for railways in India is rather in its infancy now; but you are probably aware that there is a very considerable move in that direction, and the expectation is that much larger sums will be raised in India for branch railways under contract with Government, with not what we might call trustee guarantees, but amply secured?—Yes.

7977. There are, for instance, rupee loans with a 3 per cent. Government of India guarantee?—Yes.

7978. I suppose you would be willing to advance against those, and that those should be included?—There is no market, or a very small market, in India; and I think the bank would only take into consideration the character of the borrower.

7979. Have you personal experience of the working of the treasuries up-country; do you think they are economically worked?—I think they are very economically worked.

7980. Do you think the balances which are moved on from one place to another are kept as low as possible?—The bank's complaint is that some are kept too low.

7981. Apparently you think full advantage is taken of the improved railway facilities and telegraphic facilities as they now exist; we have had evidence, I think, that trade has increased, and the commitments of Government are larger, and the balances are now considerably greater up-country than they used to be?—I am not prepared to give an opinion on that point. I think they are very economically managed. Occasionally there may be a surplus of 50,000 or 60,000 rupees at one treasury, which is not immediately required, but will be required a little later on. It might possibly be moved somewhere else, but there would be the cost of moving.

7982. If that be the case at 200 or 300 treasuries it would amount to a large sum?—It would in the aggregate. It is only for a very short period of the year that there is any shortage of money in India, and that could easily be met of late years by the reserve treasury without touching any of this money.

7983. I am now dealing with the question whether any of these balances up-country are unnecessarily large and therefore, of course, wasteful?—Speaking generally, I should say not.

7984. (Mr. Keynes.) You say you have rejected fixed deposits at 4 per cent.?—We will not give 4 per cent. now.

7985. But you propose that the Government should lend to you at 4 per cent.?—In times of pressure.

7986. Four per cent. is the rate that you would pay, then, in the busy season, not all the year round?—No, in the busy season. We as bankers do not mind 8 per cent. at all; it is the merchant who is to benefit by any reduction, and he often does extremely well when the rate is 8 per cent.

7987. Was your reason that if you were to employ all those funds you would lower the bank rate, and you do not wish to do that?—We had too much money. Our cash balances grew enormously, and it was no good paying 4 per cent. for money which was lying in the till unused.

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7988. By too much money do you mean more money than you could use at the current bank rate?—Yes.

7989. So that you could only use the additional funds by lowering the bank rate?—No; we could not employ the funds at all—or, at any rate, only for a very short period of the year.

7990. Do you hold that the funds that you could employ are largely independent of the level of the bank rate at a given moment?—I say that it is a question of supply and demand. We got more money than we could employ by offering 4 per cent., so we reduced our rate first to 3½ and now to 3 per cent.

7991. Do you think that the demand for money at a given moment in India is independent of the rate charged for money, or not?—The demand for money in India is caused by the crops and the habits of the cultivators who want cash for the crops.

7992. Then the reason for raising the bank rate is not to choke off a certain number of borrowers?—The reason for raising the bank rate is certainly that as the borrowers increase, not being a philanthropic institution, we make them pay more for the money when the demand is in excess of the supply.

7993. If raising the bank rate chokes off borrowers, I suppose lowering it would bring new borrowers forward?—No, I do not think it would. There are times in India when we cannot lend money at any rates at all.

7994. I am speaking now, not of the very dull season, but of the eight months of the year in which there is a good deal of business doing?—We are always open to lend money.

7995. If you put the very dull season on one side, but keep your bank rate down, does that mean that more borrowers come forward who would have been deterred by a higher bank rate?—No, I do not think so at all. Money is required for trade, and borrowers pay the bank rate current for the time being.

7996. Did I understand you to say that raising the bank rate choked off some borrowers?—I do not actually mean to say that, but as pressure for money increases we make the borrowers pay more for the accommodation.

7997. That has no effect upon the number coming forward?—It ultimately has an effect.

7998. Then I suppose lowering the bank rate ultimately would have the effect of making more come forward?—There are borrowers, but it is reliable borrowers who will pay us back that we want.

7999. Do you argue that if the Government lent you money at 4 per cent. in the busy season that would keep down the bank rate to 6 per cent.? How much additional borrowing would be produced by that result?—I do not think the Bank of Bengal would borrow anything at all.

8000. Do you mean that the Bank of Bengal could already meet all borrowers at 6 per cent. if they chose?—If the Bank of Bombay and the Bank of Madras rates keep down to 6 per cent. ours would not probably go up; but if their rates go up to 8 per cent. or 9 per cent. we must support those institutions by putting up our rate too.

8001. Apart from that, do you think you could meet all demands at 6 per cent.?—We would not keep to 6 per cent. if we could get 8; but if we could get money from Government at 4 per cent. there would be no excuse for our charging more than 6. I hold that 2 per cent. would be a fair banking profit for the commercial risk of lending the money.

8002. Do you think the mere offer on the part of the Government of lending at 4 per cent. would keep the bank rate down?—That is my opinion.

8003. That is based upon your theory that the urgency of a number of borrowers in India is, apart from the slack season, independent of the bank rate?—It is independent of the bank rate. It is caused by the marketing of the crops.

8004. I am putting that point definitely, because it is a point which it is difficult for anyone used to the affairs of this country to understand?—Quite so, but the conditions in India are absolutely different. Money there is required to pay for the crop coming to

market, and borrowers come to the Presidency banks first. It is not as if there were reliable borrowers going about who will borrow when our rate is 4 per cent. and will not borrow when our rate is 5 per cent.

8005. It is your deliberate opinion, in the peculiar circumstances of India, that the number of borrowers is, broadly speaking, independent of the bank rate, so that the offer to lend funds would prevent its rising to its present height?—Yes, I think so. If the Government offered to lend to the Presidency banks at 4 per cent., our rate would never go above six.

8006. It seems a simple solution.

If a State bank were to be established, do you think they could push notes in a way in which the Government cannot push them at present?—I think so.

8007. In what sort of ways?—We could have far more branches than the Government have currency offices.

8008. Do you mean that the facility of being able to cash them would encourage the people to use them?—Yes.

8009. I think you mentioned this afternoon the fact that there was no currency office at Dacca, and the fact that Dacca was a long way from Calcutta was an important part of the reason why notes are so little used in Eastern Bengal?—Yes. There is no currency office in Eastern Bengal.

8010. Have you any knowledge of why there is not? What has hindered the establishment of one?—The Government felt, I think, that they would have to transport large sums of money about the country. The Presidency Bank of Bengal in the jute season send seven crores of rupees to the Dacca district, and that gradually filters back to Calcutta. The cost of sending the seven crores is large. If there was a currency office in Dacca, the Government think they would have to provide whole rupees at their own cost.

8011. If such a currency office had been introduced in the early years, then if people had wanted to cash the notes at Dacca it would have been expensive to Government?—But rupees were wanted to pay the ryot, not gold or notes, and the cost of sending the necessary rupees would have fallen upon the Government.

8012. Do you think in the long run the extra popularity gained by the notes would recoup the Government for the initial expense?—Yes, and I also think if there was a currency office in Dacca rupees would be very much less used, and the people would take notes.

8013. Then it has been rather a short-sighted policy, you think, based upon fear of the initial expense?—It has been a short-sighted policy undoubtedly, based upon the Government's idea that it is not its duty to assist and facilitate the financing of trade.

8014. Are there any other important centres in the part of the country you have knowledge of, in which currency offices ought clearly to be opened, in your opinion?—There are a large number of centres where there are no currency offices.

8015. But no outstanding cases?—Dacca is one big one, but it has a short season. There may be others.

8016. (Sir Shapurji Broacha.) I suppose you would rather the bank rate go to 8 per cent. than take 1 per cent. profit on Government borrowed money?—I do not think 1 per cent. is good enough for the risk of lending the money.

8017. You simply raise the rate to 6 or 7 per cent. in a brutal way?—We do not raise the rate in a brutal way at all. We raise the rate as borrowers come and take away the money from us. If nobody came to borrow, our rate would remain at 3 per cent.

8018. If your rate was 6 or 7 per cent., would not the commercial community have a voice in your action?—The commercial community are represented by our directors, and it is our directors who raise the rate.

8019. It appears now—it has not been known to the Commission before—that a large amount of gold is taken in the north-west parts, that is to say, in the Punjab, at Agra, Delhi, and Cawnpore, because the Government give a concession of $\frac{1}{16}$?—I am not certain

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about Cawnpore, but I am about the other three places. I know that our agents ask for a currency transfer payable in gold. One day our assistant, in translating a code telegram, forgot to write "payable in gold." Then there was a hullabaloo because the agent was charged $\frac{3}{8}$ instead of $\frac{1}{8}$. We checked the telegram and found the mistake.

8020. If the native merchants wanted to transfer a lakh from Bombay they would not like to go to the Government?—They would prefer the bank at even rates.

8021. Is that $\frac{1}{16}$ on the gold forcing gold into circulation?—It suits the Government to get rid of the gold.

8022. Of course, it is owing to the Government forcing this circulation of gold that more gold is going to Lahore, Delhi, and Agra?—I do not know whether the Government is pressing the circulation at all. I merely know that they charge us $\frac{1}{16}$ less for taking payment in gold.

8023. Are your directors in favour of a State bank?—They have got an open mind on the subject. They want to see the scheme. If there is nothing in it, they do not want it.

8024. They are not asking for it up to now?—The letter from the Bengal Chamber of Commerce* says, like everybody else, that there are various pros and cons. They are keeping an open mind.

8025. That is not asking for it?—It has not been brought up much.

8026. Then there is no necessity for asking the Government to have a State bank?—I think in India there is no enthusiasm about a State bank.

8027. What benefits would you give the Government and what would be the duties of the State bankers?—The benefit is not to the Government. The benefit is to the populace at large.

8028. And what is the benefit?—Efficient management.

8029. What more would you do in your circle if there were a State bank?—All this money, instead of being locked up by Government under the names of various funds, would be available for trade, and everybody would get money cheap. That is the idea.

8030. And money being very cheap, you would not borrow from the Government at 1 per cent. less?—No.

8031. What better service would you do for your circle by a State bank than you are doing now?—I do not think it would be any particular service to the shareholders of the Bank of Bengal, but it is thought by experts that a State bank would be of great service to the people of India.

8032. You cannot get more credit than at present in your circle, can you?—Not in our circle.

8033. France, England, and Germany have less than one-third the area of India, but I suppose that, having three banks, better service is rendered to each of those three countries than if there were only one bank for those three countries, whether it be the Bank of England, or the Bank of France, or the Bank of Germany?—I am not prepared to express an opinion on that. I suppose those three countries are quite different to India. Perhaps in France, Germany, and Great Britain they are better with their three separate banks, but I am not certain that Bengal, Bombay, and Madras are—they are all one country.

8034. If you could not render more service to your circle, do you think the Bank of Bombay could render better service to its circle?—The Bank of Bombay are usually harder up than we are.

8035. You have, of course, much more money to spend; but you cannot do any better service by a State bank than you already do?—I think there will be a better service in Bombay.

8036. How?—All our Bengal funds would then be ready in times of need to help Bombay.

8037. I am talking of yourself. Will you do any better service for your circle by having a State bank?—Our circle is quite comfortable at present with the bank as it is.

8038. And you could not do better service there?—We are anxious to extend the benefits of the service to Bombay.

8039. How many directors have you in your bank?—Seven.

8040. How many of them are natives?—None.

8041. Are there not any native shareholders in the Bank of Bengal?—Very few in Bengal.

8042. Suppose these three banks were amalgamated; the Bank of Bengal has more than double the capital of the Bank of Bombay and the Bank of Madras, has it not?—Yes.

8043. So the directors would be elected by the shareholders of the Bank of Bengal, as they are elected now in the Bank of Bengal?—Yes.

8044. And then, of course, the board would be the board of the Bank of Bengal?—No; there would be local boards at Bombay and Madras.

8045. I am talking of the central board. The central board would be men of the Bengal Presidency Bank?—The present very able directors of the Bank of Bengal.

8046. I do not deny their ability. How many directors have gone to Lahore and travelled through Central India or Southern India to get an idea of the extent of the business that they should do?—I think they all of them go to Simla and various other places.

8047. Simla is not a banking place?—They are all men of the leading firms, with the greatest knowledge of the country. I do not know whether they have actually been to Madras, but they certainly all go to Bombay.

8048. Do you think people who have never been to India will be able to manage native credits in India?—There is not the slightest difficulty in its being done at present.

8049. That is very easy to say; but how is it to be done?—Why should it not be done?

8050. I suppose you discount bills in your branches?—Yes.

8051. One signature is nearly always from Calcutta, is it not?—No. We discount the bills of the local shroffs. We have a native accountant and a native sub-accountant at each of our branches. They are both men of considerable standing in the place, and they advise us as to the standing of the native firms that come to us.

8052. What has all your discount, apart from the Calcutta signature, done for your branches compared with Calcutta itself?—Our best bills come from Bombay, I think.

8053. Bombay is, of course, all right?—I said, I think, to the Chairman that my experience is that finance in India is now getting centred in the seaport towns. Up-country the shroffs our branches know are all well-to-do men who seldom or never discount.

8054. Do you think Bombay will submit to your Calcutta board?—I think they would be wise to do so.

8055. Do you not know that there were three State banks at one time, one at Calcutta, one at Madras, and one at Bombay, with Government directors and Government shareholders?—And they were brought into discredit by the bad behaviour of Bombay.

8056. Quite right; but you remember you offered as a bribe to give them for their shares 500 rupees, while the liquidation would only give them 100?—I do not think that is possible.

8057. You have not gone into that?—I have never heard of it.

8058. They would never submit, and would have nothing to do with the credits being distributed from Calcutta; how are you going to surmount that difficulty?—Calcutta, in Mr. Dickson's time, made an offer to the Bank of Bombay, and I think the majority by which it was carried was something like 136 for to 134 votes against; there was only a very small majority. That was a great mistake on the part of the Bombay people.

8059. The Bombay people would not submit to it?—Unwisely, they did not submit to it.

* See annex to Appendix XXVI., page 606, paragraph 18.

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[Continued.]

8060. Do you think there is a chance of their submitting now?—We will leave them outside if they will not submit.

8061. Did you ask them recently their opinion whether they would like to amalgamate with your bank?—Not that I know of.

8062. I thought you said something like that?—No. I said we would offer to amalgamate if this Royal Commission decided that a State bank is advisable for India.

8063. Do you think the Government of India would lend you two crores or three crores or four crores in a time of stress, and would take upon themselves all the responsibility without any control?—Every other country has a State bank, why should not we have a State bank in India?

8064. Those State banks lend to the Government, but your State bank is to borrow from the Government?—We do not borrow from the Government at all. We support the Government very largely.

8065. Would you take charge of the duties of bankers to the Government?—Yes.

8066. There would be the management of the public debt of India, the management of the paper currency, which means about 42 lakhs or something like that, and the management of the Gold Standard Reserve Fund; would you use all that, or lock it up in a safe?—We would publish a weekly statement showing how it was used.

8067. But you would use it?—Not necessarily.

8068. What would you do with it?—It would be all in the till, and the information published weekly.

8069. Would you lend nothing from it?—We would have it as we have it at present. How much is there to lend? Very little, it is all invested.

8070. The Government would have directors on the board?—Certainly. I would have the Governor and the Deputy-Governor Government officers.

8071. Will not Government be responsible for any mistakes of the bank?—Not at all as the Government.

8072. Do you know that Mr. Mill wanted to make Government responsible for the loss of the Bank of Bombay money, and only lost his resolution by a small vote?—I believe so. It seems extraordinary.

8073. Then you say that Bombay is not in a central position?—That is so. They could send a representative over.

8074. How could they do that without the shareholders' consent?—It would have to be with the shareholders' consent.

8075. You would have the majority?—We will offer terms to the Bank of Bombay; if they do not like it they can do the other thing.

8076. Who are "we"?—The Bank of Bengal.

8077. What has the Bank of Bengal to do with it?—I am only suggesting that if this Commission decides that a State bank is advisable for India, it must go to the biggest bank and ask that bank to formulate a scheme.

8078. Perhaps the Commission may want you to formulate a scheme before they decide on a State bank; would you kindly formulate a scheme?—I am not prepared to do so. That should go to my directors.

8079. (*Sir James Begbie.*) Is it not your experience that when the bank rate is 8 per cent. less bills are offered for discount?—The shroff keeps up his price, but we do not get hundis at a higher rate than 8 per cent.

8080. (*Mr. Gillan.*) Your proposal to lend to the Presidency banks at a fixed rate suggests a question: Suppose the Government are prepared to lend in a particular district a crore of rupees at a fixed rate, how does the Government representative distribute the loan between the different centres?—That is premising that there will be any competition for it. It will be simply first come first served. The person who applied for it first would get the crore.

8081. That is to say, the Government would simply wait for an application and then would grant the first application at the fixed rate?—It is merely suggested in the interest of the merchant, who wants a lower rate than an 8 per cent. rate.

8082. According to that view you might get all the money at Calcutta and leave Bombay wanting?—We might do if the Government had only a crore; then Bombay would come to us, and we would charge them 1 per cent. higher, and they could have the money.

8083. It suggests this to me, that if you have a fixed rate for a loan from the Government with no method of judging where the money is most required —?—I am merely mentioning a rate of 4 per cent. with the idea of preventing the Indian banks from going above 6 per cent. My own idea is that if the Government will lend at 4 per cent., the banks will not be justified in making more than 2 per cent. out of it; that is the only reason. If you make it 6 per cent., 7 per cent., or 9 per cent., then the banks would make their rates 8 per cent., and so on.

8084. The effect then would be, in your opinion, to lower the general bank rate through the busy season?—The effect, in my opinion, would be that the bank rate would not exceed 6 per cent. in the busy season on the Bengal side; I cannot speak about Bombay.

8085. That is to say, on the average of the year you would be making less on your deposits?—We can guard against that by paying less on our deposits.

8086. What it means is a further reduction in the rate you are paying for your deposits?—Very probably; and the money we discard will then be available for railways and for opening up the country generally.

8087. You have told us that you get far more money than you can use?—That is so.

8088. At the same time everyone sees there is great scope for development in India?—There is a great scope for the honest development of India. We may desire to develop India, but whom can you trust to do so? The Government are the only people.

8089. Do you mean that you have not got firms working at the development of India to whom money could be given?—The firms we would trust do not come to us. They are mostly wealthy firms who get their own money; their reputation is so good that the public take shares in their companies, and so they do not come to us for loans.

8090. That is rather a curious position, is it not, where a bank refuses the provision of the capital required for the country?—I do not think it is any part of a bank's business to put up money to build, say, a railway; but it is quite a reasonable proposition to lend money to a first-class firm who want to build a railway. How is the bank to check the mismanagement, contractors swindling, and things of that sort?

8091. At any rate, you have got the position that the bank has more money at present than it can use?—I hold the view that the bank has so much money that we will not pay more than 3 per cent. Of course 3 per cent. is a high rate; English banks do not pay anything like that.

8092. When you come to the stringency of the period when there is an increased demand for money, where is that demand met from; what are the additional resources that come into the market to meet that demand?—Council bills and wire; 50 lakhs, or 100 lakhs, or 150 lakhs a week, if there is any amount of extra wires taken. The Government have got the rupees and the notes, so we have to get local money from Government.

8093. You are depending on Councils and the increase of the bank deposits in India to meet this extra demand for money?—Yes. The bank balances go down and down as the money goes to the districts to buy the crops.

8094. A good deal of money is drawn off the market in order to finance the crops, and it is not till some time later that the market is reimbursed by the Councils being drawn?—The actual money to finance the crops is found by the Presidency banks who, having no access to London, have no means of getting Council bills. When the crops come to the seaports, then the Exchange banks come in and the bills are offered to them; then they wire home to London saying, perhaps, "Send 20 lakhs extra of Councils." The Presidency banks have no means of getting Councils from London.

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Mr. L. G. DUNBAR.

[Continued.]

8095. I understand that the Exchange banks confine their business to dealing with these produce bills? —Yes, in a way, but they also finance mills and people who want to draw money to pay for produce.

8096. They do not, as a matter of fact, draw Council bills in anticipation?—Take a bank agent in Calcutta, say the Calcutta manager of the Chartered Bank; he cannot afford to have money lying idle in Calcutta to await the demand.

8097. At the time when the money is being taken off the market to finance these crops I presume a certain condition of stringency has been established? —Yes.

8098. I should have thought it would be an ordinary banking transaction for the Exchange banks to bring in some money in order to finance bills in anticipation? —Then they would have to gamble in what the rates of exchange would be. The rate of exchange does not go up until the stringency is established. The head offices of the Exchange banks are not in Calcutta; they have only an agent there, and it is questionable whether he would be permitted to borrow or draw from the head office large sums of money.

8099. There seems to be some difficulty then in the inflow and outflow of capital into India, or as between India and England. It does not come in very easily when the rate in London is high, and it does not find its way out when you have got too much money?—It is all explained in Mr. Keynes's book.

8100. What have you got to say to that?—I entirely agree with what Mr. Keynes says.

8101. As regards the relations of the Presidency towns to the up-country stations in the matter of finance, I want to read to you what was said by the Upper India Chamber of Commerce on that subject. They said, "When bankers and merchants of approved standing have to pay abnormally high rates for accommodation, it means that the less well-to-do class cannot get funds for trade purposes, except at an exorbitant cost. As high as 20 per cent. has been paid by dealers of fair commercial standing during the current year on short-term drafts. Be the reason what it may, in times of dear money Bombay and Calcutta appear always to be in the position to pay much higher rates of interest than up-country trade can stand, and, therefore, money is drained to these centres generally at the particular season of the year when it is most urgently needed in the Mofussil for produce"?—I cannot imagine why a place like Cawnpore should expect to get money if they will not pay rates as high or higher than those ruling in Calcutta and Bombay.

8102. Is this a correct description, do you think, of the position?—I think we as a bank take first class shroff hundis up-country at the same rates as in Bombay and Calcutta. I tell our agents that they ought to get at least $\frac{1}{2}$ per cent. more, but they very seldom can. What the bazaar have to pay for their money is quite another story.

8103. Going back to the import of funds from outside India, you were saying that the Presidency banks have no resort outside India at present?—They have no resort according to the charter.

8104. I want to ask whether the exchange banks are not sufficient to supply India's requirements?—The Exchange bank managers are in London, and while the Calcutta agent may have views as to the future course of money in Calcutta, it does not follow that the head office approve of his views, or that they have the funds available to let him have them.

8105. Do you think the position is affected by the fact that the Exchange banks are not purely Indian banks?—I think their head offices could with advantage be in India.

8106. But they are dealing with a number of other countries?—Yes, that is so.

8107. The Presidency banks, being purely Indian banks, perhaps take another view of the necessity of importing funds?—There is any amount of funds in India; it is simply that rupees are locked up by Govern-

ment. If we could get them out of Government there would be no necessity to import sovereigns.

8108. You mean that if Government lent its balances there would be no need or occasion to bring in funds from abroad?—We want rupees and we cannot import rupees. We can import sovereigns and Councils, but it is rupees that we want, and they are locked up.

8109. You know the Presidency banks have made a great point of their not being able to resort to the London market?—They did years ago, but I think that is out of date.

8110. You think it is unnecessary?—I think it is quite unnecessary.

8111. On the supposition that the Government of India lend out the balances in India?—As I have said, the Bank of Bengal has not for six years required any money, and, as far as I know, will not require it in future.

8112. Even in the busy season?—Even in the busy season we have enough to go round. The minimum cash balance which we require for our business is $4\frac{1}{2}$ crores, and we have never borrowed until our cash balance got down, say, to four crores and 30 lakhs; of late it has never been anywhere near that—we have always been over six crores.

8113. I am not quite sure what advantages you foresee in the formation of a State bank; is it that the bank would be able to encourage further the circulation of currency notes; is that one point?—I think so.

8114. And that they would be the better people to deal with the Government balances?—Yes, and make the Government balances more useful than they are at present.

8115. Is there any other particular point that you have in mind?—I put down* that their duties should be bankers to Government, to manage the Public Debt, which we do at present, to manage the paper currency, to manage the Gold Standard Reserve, and to establish a London office in order to take away the banking business now done by the India Office.

8116. Taking the internal banking arrangements of the country, that is to say, the development of the paper currency and the management of the Government balances in India, are those advantages, do you think, which are conditional upon the institution of a State bank; that is to say, could you or could you not attain them through any development of the Presidency banks?—Government does an enormous banking business of its own already, and the only question is whether a practical concern like a bank would manage that business better than Government officers now do.

8117. Could the Presidency banks manage it without amalgamation?—I think so, but it would be much better if they were amalgamated so as to have one bank. The relations between the Presidency banks I think are most friendly at present.

8118. Would it be possible under any system, for instance, to make over the paper currency to the three separate Presidency banks?—It seems difficult, but I daresay an arrangement could be arrived at.

8119. How would you divide the circulation?—That is a difficult problem and it requires much study.

8120. Could you make over the balances similarly to the Presidency banks without much calculation?—I think so. Of course I cannot speak for the other two banks.

8121. In the previous correspondence a difficulty was raised about giving the Presidency banks access to London separately without amalgamation; I take it from you the present point of view is that it is not essential or very necessary that that access to London should be given?—Since those proposals were made things have changed enormously. Money is cheap in India and dear in London, and, speaking for the Bengal Bank, we have had no occasion during the past six years to have any desire to borrow in London.

* See Appendix XXV., page 596.

At the India Office, Whitehall, S.W.

NINETEENTH DAY.

Friday, 1st August 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Lord KILBRACKEN, G.C.B.
Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.

Sir JAMES BEGBIE.
Mr. ROBERT WOODBURN GILLIAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Mr. H. F. HOWARD, C.I.E., called and examined.

8122. (*Chairman*.) Will you kindly tell the Commission what your Indian experience has been?—I first went out to India as a member of the Indian Civil Service in 1897; since then—confining myself to my work in connection with Indian Finance—I was Under-Secretary in the Finance Department of the Government of India for three years from 1905 to 1908, and subsequently to that, since 1909, I have been Collector of Customs in Calcutta, with the exception of five months last year, when I officiated as Secretary to the Government of India's Finance Department.

8123. In the Memorandum (*see Appendix XXIII.*, page 576) which you have submitted to us, I think you take the view that the total balances in India and London combined have undoubtedly been exceptionally high of recent years?—Yes, I do.

8124. But you attribute the size to exceptional causes?—Yes.

8125. In the main, to the Budget surpluses of revenue over expenditure and to lapses under the head of capital expenditure on railways?—Yes; but I think that there are certain other causes which must be mentioned, such as the fact of anticipatory borrowing, which Mr. Abrahams has drawn attention to, by which I mean that loans have been realised in anticipation of requirements to this extent—that they have been floated towards the end of one financial year, though it was intended to use them during the next financial year. Then, again, the balances have also been swelled by the postponement of the discharge of temporary debt. There are other minor points—I do not know whether you wish them referred to—such as the failure of the local Governments to spend up to their budgetted allotments.

8126. As regards the non-redemption of debt, and to a certain extent the borrowing in anticipation of requirements, would you say that at the time when that was done it was clear that the Budget surplus would be much larger than had been expected?—That is a matter which must always be doubtful. I think that we in India thought that the temporary debt might have been discharged sooner; but of course in saying that I am speaking for myself rather than for the Government of India.

8127. Am I right in thinking generally that the Indian Budgets were framed on the assumption that the surpluses at the end of the year would be reduced to figures which were much nearer normal at any rate?—Yes, I think so.

8128. It was due to the non-realisation of the Budget Estimates, either by excess of revenue or underexpenditure, that the large surpluses accrued?—Yes. I may say, with regard to that, that in the case of opium the underestimation has been, as I have no doubt the Commission have been informed, deliberate. A figure was taken which was estimated to be the normal figure which would ordinarily come in as opium revenue, and any sums received in excess of that amount were to be put by for two purposes—two-thirds

for the redemption of debt and temporary obligations of various kinds; and one third for various purposes, such as sanitation and education. That, I think, was definitely explained in the various statements both before and after it occurred.

8129. The revenue was knowingly underestimated to that extent, and it was stated so; is that the case?—I prefer to put it rather differently. It was stated that our opium position is most uncertain; we are not going to do a gamble in it, but we will take what we consider to be our normal revenue and enter that as our Budget figure; we shall very likely get more than that, and if we do get more than that we shall devote it to these purposes; it is not a normal item of revenue, it is a windfall, and it must be treated as such.

8130. Would that statement be found in the Financial Statement of the Financial Member of Council?—I think I am correct in saying it has appeared on two or three occasions.*

8131. (*Sir Robert Chalmers*.) As I understand it, you did estimate on a normal basis, even for your opium revenue?—I would not use the words "even for our opium revenue." The calculation was drawn up, I think, at the time when the last Treaty with China was made. A calculation was then made as to the amounts which, if exceptional circumstances did not occur, might be expected to be received from opium year by year with the diminishing export. That figure was put down ahead; I do not think the actual figures were published ahead, but the calculations were made ahead, and I think the Secretary of State agreed to them.

8132. Those figures appeared in the Budget?—Those figures have appeared in the Budget. There may have been a difference of a lakh or two one way or the other, as the figures were rounded off in the Budget.

8133. (*Chairman*.) The figures given in the declared surpluses of India are not, are they, as large as the figures which you give in your memorandum?—I have looked at my Memorandum again (*Appendix XXIII.*, page 577); it is liable, perhaps, to some misunderstanding. The figures which I give in my memorandum are not the actual surpluses, but they are the improvements in the surplus over the figures as originally estimated.

8134. I am not quite clear what you mean by "improvements"?—If we estimate for a surplus of a million and we get a surplus of 4 millions, there will be an improvement of 3 millions, and the figures which I have given are the extent of the improvement.

8135. Can you explain to me the causes of those large lapses of capital expenditure? As I understand, they occurred both on the part of the central Government and on the part of the local Governments?—The lapses in capital expenditure on railways, do you mean?

* See, for example, H.C. 155 of 1911, page 4.

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Mr. H. F. HOWARD, C.I.E.

[Continued.]

8136. One of the reasons that you give for the large balances is failure to spend?—The largest item for lapses is that of the railways. I am really not in a position to answer as to that, as a railway man would be; but, generally speaking, I think the lapses are due to the fact that orders were placed in England for material and by the end of the year the material had not been supplied. In one of the years under review, that was very largely aggravated by the railway strike at home, which meant that some millions worth of rolling stock and bridge material were not delivered.

8137. In that case the failure to spend arises from inability on the part of contractors to earn, and not from any change of policy?—Not from any change of policy.

8138. Nor from any hesitation in placing their contracts or in going forward with their work?—That is so. The railway companies have on occasion complained that they do not know long enough beforehand how much they will have to spend. When lapses of that kind occur in England there will probably be supplementary lapses in India in connection with rolling stock or the putting up of bridge work when it arrives; such lapses must cause a corresponding lapse there.

8139. Do you think that any alteration would enable the railway programme to go forward with greater regularity and certainty? Could you, for instance, give the railway companies earlier knowledge of the amount that would be made available for them?—That is a question which in that form I find it rather difficult to answer. An attempt is always made, I think, to give the railway companies as early a knowledge as possible. The Railway Board, I think I am correct in saying, generally know about the end of August or the beginning of September the provisional figure which the Government of India will give the railways, and they presumably by then have got their estimates of requirements from the various railways before them, and are, or should be, in a position to distribute at once. That gives them approximately 18 months from the time of placing their order to the conclusion of the financial year to which their order relates.

8140. It is done, then, in the August or September of the previous year?—Of the year before that in which the money will be spent. There is something else to be said with regard to this question. Something has lately been done, in the last year at any rate, inasmuch as the Railway Board, or rather their accounts department, have been allowed to do what is called overcertifying indents; that is to say, if they have had a grant for 5 millions, their accounts officer is allowed to pass indents to a certain amount in excess of this as against possible lapses. Personally, I have always thought that something more might be done in the way of ear-marking railway lapses.

8141. What happens to the lapsed money at present?—It goes to swell the Government balances.

8142. It is not definitely allocated to railway expenditure, then?—No, it is not; but it has frequently been urged that it might be.

8143. In the case of the grants to local Governments which you mentioned, and which you said had in some cases not been spent, were those for railway construction also?—No. The local Governments, I think, have nothing whatever to do with railway construction at present, except possibly in the case of one little railway in Assam, and I am not quite certain whether that is still under the local Government or not.

8144. What would those grants be for?—They are mainly grants of the nature to which I have already referred, for the non-recurring expenditure on education and sanitation. A lump grant is given, and the lapse with regard to this may occur in two ways: the lump grant may be placed at the disposal of the local Government when the Budget statement is made; that is to say, only a month or so before the close of the financial year, when it obviously cannot be spent.

8145. Is the Budget statement made a month before the year to which it refers?—It will be presented about a month before the year to which it refers. Grants made out of the anticipated surplus then obviously cannot be spent within that period. Then when the

year comes to which the Budget itself relates, the local Government may not wish to spend all this money at once. It has been given to enable them to build schoolhouses or to carry out some sanitary project, and it is not for recurring expenditure; and they may not wish to spend all that money in that year. Again, I imagine there are cases in which local Governments have recurring grants placed at their disposal for education purposes, but they may not be able to spend all of that at once, and of course it would be wasteful for them to attempt to do so.

8146. Am I right in understanding that in that case the money remains in the balances, but it is, so to speak, earmarked to that particular expenditure in the future?—I think it would probably be somewhat misleading to put the matter in that way, because, though the liability against the Government of India remains, the principle with regard to the balances has always been that the Government of India are the bankers of the local Governments and they can use the money whilst it is there in such a way as may be convenient for them at the time.

8147. In their published statement of accounts, are these claims against the balances shown?—I am not quite sure.

8148. (Mr. Gillan.) Do they not appear as balances to the credit of the local Governments in the general accounts of the Government of India?—I think that is so. I know they show at the end of each year the amount by which the local Governments have overspent or underspent.

8149. (Chairman.) There have been many causes, no doubt occurring more or less often but still temporary in their nature, which have helped to swell the balances, such as, in the first place, failure to expend on certain services?—Yes.

8150. In the second place, the uncertainty which attached to the opium revenue and the special caution which it was thought desirable to exercise under those circumstances?—Yes.

8151. Besides that there is always great difficulty, is there not, in India in forecasting what the revenue of the following year will be?—Yes; that must always be so.

8152. It is very largely dependent on the monsoon?—Yes.

8153. Do you know whether the Indian Government have considered whether it would be advantageous to alter the date of their financial year to the 1st October, say, so that they might have knowledge at least of the main monsoon at the time they were framing their estimates?—I have heard the suggestion incidentally mentioned, but I do not know whether it has ever been officially considered.

8154. What is your own feeling about it? Do you think it would be advantageous?—I think that it might very possibly have considerable advantages, as the position certainly ought then to be clearer; but it would require very careful examination, and there might possibly be some drawback to it which one is not in a position to see at the moment.

8155. Do you happen to know whether it is the case that they have made similar changes in Ceylon for similar reasons?—No, I do not know that.

8156. In your memorandum, I think you say that whatever causes the large balances were due to, there is good justification for them on other grounds (page 578)?—Yes.

8157. Have those grounds been in the minds of the Government of India, do you think, or is this rather an *ex post facto* justification?—As far as the opium surplus goes to which I have already referred, that has obviously been in the minds of the framers of the Budget. But I do not think I should be correct in saying that those grounds had been very prominently before the framers of the Budget: that is a point on which I am really hardly in a position to speak for them. I should say an endeavour has been made to draw up our Budgets as accurately as may be, having regard to the various risks to which we have been exposed both with regard to famines and with regard to our opium position.

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Mr. H. F. HOWARD, C.I.E.

[Continued.]

8158. Do you think if the Government of India had made it a little plainer to the Secretary of State that these were rather specially cautious estimates, and that it would not be unreasonable to hope for better things, the Secretary of State might have been more ready to pay off some of the debt, or to pay off earlier, or, again, less ready to borrow?—I do not think that I should be correct in assuming that the Government of India at the time that these estimates were made, were over-cautious; but, even if they may have proved to be so after the event, I should not like to say that it would have been wise to avoid borrowing the money that we have done as opportunity has arisen. We wanted it all.

8159. I thought you did indicate an opinion that the Secretary of State might have paid off debt a little more readily than he did?—I should explain that I was referring solely to the case of our temporary debt, which we had all along contemplated paying off out of our opium surplus.

8160. Is the Secretary of State—I am not now talking of private communications which I know pass between the Secretary of State and the Viceroy—kept officially informed of the fortunes of the year?—I think I am correct in saying that he receives a telegram every week from the Revenue and Agricultural Department about the condition of the crops.

8161. Would the Finance Department communicate as a matter of course with the Secretary of State in Council if there were prospects of the Budget estimates being largely exceeded?—I think that they are in constant telegraphic communication with him the whole time while the preparation of the Budget is going on; but it is some years since I was in the Department at the time when the final Budget preparation took place, and I am not able to say with certainty. I think there are very often two or three telegrams a day.

8162. I am not speaking of the moment of the final preparation of the Budget, but after the Budget has been passed and approved. Suppose that six months later the prospects had obviously improved, and a surplus could reasonably then be counted on largely in excess of the original Budget estimate, would the attention of the Secretary of State be officially called to that, or would he be left to gather it from such routine information as was sent home?—Are you referring to the position during the year to which the Budget relates?

8163. Yes. You finally settle your Budget in the month of February or March, and the financial year begins by the 1st April; suppose that by the 1st October there was reason to anticipate a surplus of 2 millions above the Budget estimate: would that be brought directly to the notice of the Secretary of State?—I think it would be brought to the notice of the Secretary of State in this way, and obviously in other ways also:—Before that time we should have been considering our railway programme, and our programme for capital expenditure generally for the year after that; and in that connection we should be taking into consideration what our total balances would be at the end of the year under consideration. Any improvements, as they are technically called, in revenue of the kind to which you refer would, I think, then be directly brought to his notice in that connection.

8164. Suppose in the month of March it was decided, after communication between the Government of India and the Secretary of State in Council, that it would be necessary to renew bills for 2 millions in December, and suppose that by the month of October you saw that the prospects of the year were very much better than you had anticipated in March, that might have a bearing upon whether it was desirable or right under the altered circumstances to renew those bills in December. Would considerations of that kind be officially brought to the notice of the Secretary of State by the Government of India?—I am not sure that the Secretary of State has ever consulted the Government of India in connection with the renewals of these bills; he may have done so, but I cannot say off-hand whether he has done or has asked for information in that particular connection.

8165. You do not think he does?—I really do not know exactly what the position was with regard to those bills. I was not in the department at the time the question arose, and, though I have seen certain correspondence urging the Secretary of State to pay off the balance, I do not know exactly what information was supplied to him in connection with them.

8166. I gather you do not think that the caution exercised in its estimates by the Government of India misled in any way the Secretary of State as to the prospects of the year, or induced him to borrow more money than otherwise he would have done?—My impression is that it did not.

8167. Incidentally in your memorandum, paragraph 9, page 578, you defend the piling up of these balances on the ground that they have provided you with large amounts at the present time when the price of India $3\frac{1}{2}$ per cent. stock is low. That is a happy coincidence, is it not?—It is very largely a happy coincidence. I should defend them rather on the ground that they have enabled us to observe continuity in railway expenditure.

8168. And to that you attach great importance?—Yes, I attach great importance to that.

8169. As regards the possible loaning out of the funds in India, I believe the Government has offered to do that in the past on certain conditions, has it not?—That has been discussed on various occasions; I think as far back as 1899, and probably further back, there has been some discussion about it. On that occasion I think the Government of India were prepared to lend money to the banks, and the Secretary of State was willing to allow it, on the condition that they always retained sufficient funds to meet his drawings. I think I am correct in making that statement, but I do not think the correspondence is among the papers which have been shown to me. Subsequently when the question arose again, about 1905 or 1906, the Government of India were experiencing great difficulties in finding the rupees to meet the great demand for them that was going on at that time, and they represented to the Secretary of State then that there might be difficulties in making loans to banks; but I believe that when loans have been applied for on occasions of stringency they have been given. It is of course possible that they have not been applied for more, as the banks may generally have understood that any loans made would only be given at the bank rate.

8170. And on those terms there is no inducement to the banks to take the money?—There has not in recent years been any inducement; that is to say, money would probably have to be very tight before the Bank of Bengal would be willing to take money at 8 per cent. or 9 per cent. from the Government—at any rate, for anything but a very short period.

8171. Supposing the Government of India were willing to lend in the busy time, have you yourself formed any opinion as to the amount which the banks would be likely to apply to them for?—I have tried to form some opinion, but without making enquiries I am afraid any opinion would only be guesswork. As a guess, I doubt whether the banks would be able to take more than, say, a million or 2 millions sterling at the outside; but of course I would not like that to be regarded as a definite opinion, as I have not been able to make enquiries.

8172. Would you think it wise for the Government of India to lend to anybody except the Presidency banks?—I think, if the exchange banks objected to loans being confined to the Presidency banks, it would be rather hard to meet their objections, as money has been lent to exchange banks and other people in England.

8173. Would you confine it to the exchange banks and the Presidency banks?—Yes, I think so.

8174. I presume you would expect them to deposit security?—Yes.

8175. The Presidency banks already have considerable Government balances free?—Yes.

8176. And you would not advise placing larger sums with them except against security?—Only as a *quid pro quo* for some service which the Government was going to get performed for them by the Presidency

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[Continued.]

banks, such as the free management of their promissory notes or something of that kind.

8177. In that case it would be payment for services and it would not really be free—it would be the absence of interest that would give the payment for the services?—Yes.

8178. In paragraph 17 (page 581) of your memorandum you refer to the question of giving the Presidency banks power of borrowing in London; do you regard the absence of that power as a serious injury to India?—No, I do not regard it as a serious injury. I think it might prove useful to the banks to have the power, but I will not say that I consider that serious harm is being done by their not having it.

8179. Is it your idea that if they had that power they would bring money out from England in the busy season?—I think that on occasion it is possible that they might be able to assist the process which the exchange banks at present perform in bringing out funds to India.

8180. Do you think there is any reason to suppose that the exchange banks do not bring money out as freely as the circumstances warrant? I will put it in another way: do you think they would be backward in bringing out the money if they saw their way to making a profit?—I was quite prepared to answer your first question. I do not think that. The point that has occurred to me—I have not sufficient knowledge of the banking business of the exchange banks to know whether it is a good point or not—is that they might have seen their way to making a bigger profit elsewhere. Some of these banks have branches in Hong Kong, China, the Straits, and, I think, in Australia.

8181. So that their interests have not been purely Indian interests?—That is so.

8182. And they might find it to their advantage to use their funds elsewhere?—Yes.

8183. Even though India wanted them?—Even though money was tight in India it might be tight in other places.

8184. It is only for a small portion of the year that money is tight in India?—Yes, I should say a small portion of the year.

8185. We have had evidence that there is great difficulty in employing money at all in the slack months of the year?—That is so, but it is generally believed, I think, that the busy season extends over a longer period than it used to, say, 15 years ago.

8186. Supposing that the Government of India were willing to make advances, have you any views as to the source from which they can best be made; had they better be made from the treasuries or from the currency reserve?—I do not see any objection to their making advances from either their treasury balances, if they are able to do so without inconveniencing themselves, or from the currency balances.

8187. We have had it suggested to us that in some ways the currency reserve might be the most convenient source. At the present time the issue of notes is directly regulated by statute, I think?—Yes.

8188. And the fiduciary portion is fixed at a rigid figure by statute?—Yes.

8189. Do you think it would be safe to increase the fiduciary portion?—I think with the currency reserve growing as it has done, it would be possible to make continual increases from time to time in the fiduciary portion, and I think probably some increase might be made now. In connection with the possibility of temporary advances from the currency reserve, I intended of course that they should be limited by the same considerations that permanent investments of the reserve should be limited by.

8190. That they should be part of the fiduciary issue?—Yes, and that they should take the position of a temporary investment.

8191. To what limit do you think it would be safe to go in the fiduciary issue? Should you fix the limit by a percentage either of the gross issue or of the net issue of the notes?—I have endeavoured to consider whether one might fix it in some way of that kind, but I have found it very difficult to think of any percentage figure which would in all circumstances be satisfactory. I should prefer to consider the position

from time to time after looking to all the circumstances of the time. The reserve has grown up so rapidly in the last few years that I find it rather difficult to generalise in that way.

8192. In any case you think it might be possible, within whatever limits were fixed for the fiduciary issue, to make available a part of that money, not for permanent investment, but for temporary investment?—Yes, I think so.

8193. And to use money so set apart for temporary investment for the relief of stringency in the busy times?—Yes.

8194. In paragraph 44 (page 590) you put in an opinion of the late Sir Clinton Dawkins on that subject, but I think you do not altogether agree with it?—No, I do not altogether agree with it. The point made by him was that the general taxpayer would be a loser.

8195. The point made by him was this rather, was it not: that if you could invest money at all you could invest it for 12 months, and that if you could afford to invest it for 12 months it would be earning less interest if you invest it for only three months or any short period?—Yes.

8196. In the busy season, I suppose, the active note circulation tends to rise?—I think I am correct in stating that it does.

8197. So that just at that period of the year you have not much reason to fear that notes will be brought back for encashment, I mean on balance?—We have got such a large margin that there would be no risk involved in loans of a relatively moderate amount being given.

8198. What I was going to suggest to you was that it is in the busy season of the year that people take out notes, and it is in the slack season of the year that they bring back notes, on balance; therefore, in the busy season of the year the call on your reserves for the encashment of notes would be less, and your power to lend would be greater; do you follow that?—I follow that; but I am not quite certain of my facts as to the extent to which the actual circulation of notes with the public extends in the busy season.

8199. If I am right in my premise, I am right in my conclusion, am I not?—Yes.

8200. Am I right in inferring from what you say in paragraph 19 (page 582) that you think the amount of rupee loans issued in India in recent years could have been considerably increased?—I speak there of "somewhat larger loans." I think it might be safe, for instance, to try to raise 4 crores as against 3 crores, but I do not think we could put a loan of 6 crores on the market and hope that we could get it taken up.

8201. Are you entirely dependent on the banks taking up these loans, or do you get a direct response from the public?—We are mainly dependent on the banks, though there have been occasions on which other gentlemen, I believe, have taken considerable interest in the loans.

8202. What is the policy of the Government of India in respect of loans? Is it their policy to place as much as they can in India?—Yes, it is our policy to place as much as we can in India. I imagine it might have been possible perhaps to have placed more in the last two or three years, and the reason that was not done was probably the fact that our balances were so high that it was not considered necessary to skim the market in that way. Generally speaking, the principle is correct.

8203. I gather that in your opinion the fixing of the rupee at 1s. 4d. has been beneficial to India?—Yes.

8204. Do you think that is the general opinion in India?—I think so among unbiassed people who have really thought about the question; but it is rather difficult to say what is the general opinion in India about anything.

8205. The Committee of 1898 recommended that India should have a gold currency in active circulation; do you think that desirable?—I think it is desirable if gold is wanted by the public to let them have it; and it is desirable for the Government to be in a position to honour both their notes and their rupees by gold, if they are called upon to do so.

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8206. I quite understand the view that it is desirable that the Government should be in a position to give the public whatever it demands?—I can quite see that there is something in the argument which is generally used in support of a gold currency, that it will mean that the liabilities of Government for the redemption of rupees are less if gold is in circulation instead of rupees which would otherwise have been coined.

8207. On the other hand, would it not mean that the reserves which the Government have to meet those demands, are less also? I will take it by stages: if you put rupees into circulation you increase the Gold Standard Reserve by the profits on the coinage; that is so, is it not?—Yes.

8208. And if you put notes into circulation you increase the currency reserve?—Yes, but the position is not the same. In the case of your currency reserve you have got a metallic backing for a considerable portion of it—in fact, for the main portion of it. With regard to your rupees in circulation, the profit on coinage amounts at most to about a third, and the higher the price you buy your silver at the less your silver is, and the smaller the proportion your reserve forms.

8209. The only way in which you can increase those two reserves is by increasing either the note circulation or the rupee circulation?—Yes.

8210. If, on the other hand, you put the gold into circulation those reserves cease to increase?—Yes.

8211. Which is more valuable for the maintenance of exchange—a million in your reserve, or a million in circulation in gold?—In my opinion the million in the reserve would be more valuable.

8212. Do you think that if gold were in circulation it would serve largely to support exchange in a time of crisis?—I am very doubtful about it, but that is a point on which I think it is impossible to form any final or definite opinion.

8213. As far as the experience of 1907, 1908, and 1909 goes, what is the inference you draw?—I think at that time, though a considerable amount of gold has been absorbed, there was very little actually in circulation.

8214. At that time the Government of India gave up, I think, something like 4½ millions of gold?—A great deal of gold was taken.

8215. Of that 4½ millions there was actually exported, I think, only a quarter of a million?—That is very probably so, but I am not sure of the exact figures.

8216. Possibly another portion of it may have gone to prevent the import of gold*?—Yes.

8217. But it is only to that extent that that 4½ millions served to support the exchange at that crisis?—To the extent to which it prevented the import of gold?

8218. Either to the extent to which it was exported or to the extent to which it prevented the import of gold?—It seems to me that it would always be valuable for Government to hold gold for that special reason. There will always be a demand for gold, and if Government does not meet it it will have to be found elsewhere. By meeting that demand you help to keep up exchange to a certain extent. Whether it is as valuable a weapon as selling sterling bills on London or not I am not sure, but at any rate I think it is a valuable weapon.

8219. If such a crisis arose again, I infer from that that you think the Government of India ought not to hesitate to use its gold freely, both in London and in India?—Yes, that is my opinion.

8220. Would you be prepared to say that if you had your free choice as to whether the gold should be in circulation or in reserve, you regard the use of it in circulation as comparatively wasteful from this point of view?—I should regard it as only comparatively wasteful, because it may have its uses. So far as one can judge, gold would not come back from circulation for export but it might. It is rather difficult to answer that question, because we have tried to find out

what happens to gold in India when it is absorbed, and we know really not nearly as much as we should like to.

8221. Does the Government of India, as far as you know, act upon the principle that you suggested just now in one of your answers, that they should give the public whatever they ask for without trying to force one form of currency rather than another?—So far as I am aware, that principle is acted upon. I do not know whether in some sub-treasuries it is always possible to give the coin that is required, but I imagine it is.

8222. I ask the question because we had it in evidence yesterday that in certain places, Lahore was one of them, if a bank applied for a currency transfer from Calcutta to Lahore, they were favoured to the extent of $\frac{1}{16}$ if they took gold rather than rupees?—I am not able to say whether that is correct or not; I have not heard that.

8223. Speaking generally, what is your view about a gold currency? do you think it is a necessary concomitant of a gold standard?—I do not think it is necessary, but I consider that it is most desirable that an endeavour should be made to meet any demand for gold that there might be on the part of the public. I can conceive of theoretical systems in which there is no gold currency, but I doubt whether it is practicable at the present time.

8224. If you had your own way to do exactly as you pleased, would you induce the people to take gold, or would you try to induce them to take notes and rupees?—I think I should have a certain sentimental desire to let them do as they like.

8225. That is not exactly an answer to my question, is it?—It is not that I do not want to answer any question put to me on the subject, but I feel that if you refuse to allow the public to have gold when they see that you have got it, there is always liable to be mistrust, and if there is a demand for it, I think we ought to let them have it.

8226. But apart from special circumstances with which you are not acquainted, you would not go so far as to put a premium on their taking gold?—No, I would not do that; but in cases in which gold is not immediately available there is always great public inconvenience. For instance, I believe, in France only a few months ago, if one was travelling on the Continent, it was very difficult indeed to get any gold; you got 5-franc pieces. That was only last Christmas.

8227. So that you rather infer from that that civilised countries get along with a comparatively small gold circulation?—Yes.

8228. If India has a circulation which is mainly a token currency, she is not peculiar in that?—No.

8229. Now as regards the question of the establishment of a gold mint in India, what is your view on that?—I should like to see the experiment tried. I put my answer in that form intentionally, as a great many people have said that they object to it being called an experiment.

8230. You consider that it would be an experiment, but one which you would like to see tried?—I would like to see it tried because we may get gold presented, or we may not, but I think that the probability is that in time gold will find its way to the mint; and if there is bullion, or if there are ornaments, that people wish to take to the mint, I think the mint ought to be there to deal with them.

8231. I suppose if they took those ornaments now they could get bullion value for them without difficulty?—From the bank or from a jeweller I suppose they probably could.

8232. Do you think they would have any difficulty in getting sovereigns in exchange for bullion in the form of ornaments?—I think the circumstances in which bullion might want to find its way to the mint would be those in which there would not be a large number of sovereigns available—that they would have been drained out for export, or that they would have disappeared. I am talking of the bullion and ornaments from the hoards, not of bullion which is imported by the banks, as I think your

* See Appendix XXIX., page 633, in this connection.

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question related to the bullion and ornaments coming out of hoards.

8233. Yes. What would be the circumstances in which that form of bullion would be likely to come out—would it be under something like the pressure of famine?—The circumstances are, of course, theoretical, but we are dealing very largely with a theoretical question. I meant such circumstances as a famine.

8234. Your idea is, then, that they might bring out gold bars, or gold ornaments, and if there was a mint open, take them there to be coined into sovereigns?—At any rate they would be bought up and the person who bought them would be able to convert them into coin.

8235. What would he do with the coin when he had got it?—I do not know what he would do. I do not know who the "he" would be. If "he" was the bank, they might want to export it.

8236. If he was wanting to export it, would not bullion be just as useful for him? Would not the gold bars be as useful to him for that purpose as the gold sovereigns?—I do not know that he would get any large gold bars held in hoards. I am talking more of the small trinkets and ornaments which would come out of hoards, and might gradually find their way through the local mahájans, and so on to head-quarters, and there want some outlet.

8237. Do I understand you to think that the opening of a mint would, under such circumstances, give a power to the peasant to realise the value of the gold that he has got which he cannot now exercise?—I do not think I could press the contention that the peasant could not sell his gold for money, and I do not think I meant to say that.

8238. You do not think the advantage of it would get down to him in any way, then?—I suppose the peasant with hoards could get money for his ornaments; but it is more on theoretical grounds as regards the peasant. I think the word "anomalous" which I used rather implies that it is a theoretical objection.

8239. (Mr. Keynes.) Would it meet your point at all if the Government were to re-introduce the notification which I think existed in 1906 by which rupees were issued against gold bullion?—Yes, it would to some extent.

8240. In that case your peasant could bring his ornaments and get rupees for them?—And then leave it to the Government to export the gold bullion and re-import sovereigns in its place?

8241. If it wished to do so?—I think it would meet my objection on one ground, but would it not be rather introducing a new function for Government as dealers in gold bullion?

8242. (Chairman.) Am I right in concluding that your reasons for a mint are rather theoretical and sentimental than practical—that you approve it, rather because you find it difficult to argue against it in theory than because you believe any great practical advantage would accrue from it?—I think that practical advantages may conceivably accrue; but I think it is a duty which we owe to the public, if they present bullion when we have nominally a gold standard, that we should be prepared to convert that into coin. It might be a practical inconvenience if it is on a larger scale than the small ornaments which I mentioned as a theoretical anomaly.

8243. Would you propose to charge seigniorage on the coining of sovereigns?—No.

8244. They do in Australia?—I believe in Australia the mints were introduced not in order to supply currency but as a convenience to the mining community mainly. I believe that was the objection urged by the Royal Mint at home at the time when our proposal was first put forward with regard to the opening of an Indian mint.

8245. On the other hand, South Africa, the country where the greatest amount of gold is now produced, has not thought it necessary to have a mint, so far at any rate?—That is, I believe, the case.

8246. Does not that affect your argument? Are you still desirous of it?—Yes; I think we ought to

place the facility in the way of the public in case they desire to use it.

8247. So far you have rather suggested that it would not be much used at any time, and that if it was used at all it would be used only in bad times?—It might only be used in bad times; on the other hand, the Indian mines at present produce, I believe, about 2 millions pounds worth of gold a year, which is exported, and it might be convenient to them to pass their gold through the Indian mints.

8248. Do you happen to know at all whether they are still under contract to send their gold to England?—I understand they used to be, but I do not know what the present position is.

8249. Coming now to the Gold Standard Reserve, I think it is your view that a larger sum should be held in actual gold?—Yes.

8250. Will you give me your reason for that?—If Government merely holds securities and sells them it may put them in funds to some extent, but it affords no relief to the market. If they are actually in possession of ear-marked gold, they are both in a position to utilise that, and to help to relieve to that extent a financial stringency which may exist. Apart from that there must, of course, always be a considerable loss in a great crisis by the sale of securities.

8251. Are you disposed to name any figure as the minimum amount of actual gold that ought to be held in reserve?—I would rather consider the question from time to time as time goes on; but I would like to see 10 millions, at any rate, held, and I would not mind seeing 15 millions.

8252. Under the present circumstances?—It is to be 5 millions at present.

8253. Would those figures you have mentioned be under present circumstances?—I would not sell our securities out in any hurry, but as the reserve is built up I would like to see those figures gradually got to.

8254. I think you approve of the location of the major portion of the Gold Standard Reserve in London?—Yes; provided, of course, that we also hold sufficient gold in India in some way or other.

8255. Do you approve of the existing Indian branch of the Gold Standard Reserve?—I should be quite willing to see that changed into a gold reserve and the rupees transferred to the Paper Currency Reserve; but I do not consider the matter of any great importance, one way or the other.

8256. What is the reason for keeping rupees in the Gold Standard Reserve in India?—This reserve was originally formed, I think, in 1906, or thereabouts, at a time when the Paper Currency Reserve was not nearly as large as it is now, and when there was a very great demand for rupee coinage. It was found very difficult to hold a sufficient reserve of rupees in the Paper Currency Reserve in addition to the gold that was accumulating there. After the Government of India had first tried the experiment of holding, I think, a silver ingot reserve within the Paper Currency Reserve, and had suffered very grave inconvenience in spite of this arrangement, they decided to constitute this extra reserve of rupees, and also to hold it as part of the Gold Standard Reserve.

8257. To that extent it was a departure from the original purposes of the Gold Standard Reserve?—Yes.

8258. It was, in fact, using the Gold Standard Reserve in order to give elasticity to the currency?—Yes.

8259. But you think whatever practical reasons there were for it have passed away, and there would be no objection now to transferring that silver to the Currency Reserve, with a corresponding transfer of gold from the Currency Reserve to the Gold Standard Reserve?—Yes.

8260. You observe, in your memorandum (page 587, paragraph 33), that you do not approve the action taken in 1907, when funds previously allocated to the Reserve were used for railway development in India?—Yes.

8261. You add, that it had the great incidental disadvantage of causing the public to have grave misgivings as to the policy of Government in regard to the treatment of the fund; you would, I suppose,

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agree that to secure the confidence of the public is of the utmost importance in this matter?—Yes.

8262. Do you think that the public would have greater confidence if the management of the Gold Standard Reserve were subjected to some statutory conditions and safeguards?—I do not think it would make any great difference to them. I am not quite certain what kind of safeguards would be proposed.

8263. That is a question I was going to put to you if you had favoured a statutory regulation. All I meant to suggest at the moment was that it did seem, in your view, that some want of confidence had been caused, not by the insufficiency of the Reserve but by the handling of the subject by the Government?—Yes.

8264. Possibly, if statutory lines were laid down which it was known that the Government must comply with, the public confidence in the maintenance of exchange and in the general policy on this subject of the Indian Government would be strengthened?—I do not think that would be necessary, provided a clear and definite statement was made by Government to the effect that they would hold a supply of gold and a total reserve which would command confidence.

8265. In regard to the possibility of a State bank, I gather that you have not formed a very strong opinion one way or the other?—That is so.

8266. And that your ultimate decision would be very much determined by the kind of scheme that might be proposed?—Yes. It is a matter which one would like to discuss with a great many people, for instance, bankers and so on.

8267. Is it a subject to which you have had occasion to give special study?—No. I have read the papers and various discussions about a State bank, two or three times, at various periods.

8268. Under the circumstances, therefore, would you desire to express to the Commission any opinion as to either the advantages or the disadvantages, or the conditions which should attach to such a bank, beyond those which you have printed in your memorandum?—I should prefer to say nothing about it, because it is a subject on which I have got no practical knowledge.

8269. (*Sir Robert Chalmers.*) I will ask you one question, if I may, on the subject of the sale of Council Bills. The par of exchange being 1s. 4d. and there being specie points, one for export on one side and one for import on the other side, would you leave exchange to find its natural level within those two specie points and sell your Council Bills at the selling rate that was obtainable in the market; or would you be disposed never to sell under a certain figure, say, 1s. 4d., irrespective of the specie points?—I should adopt the first course that you have suggested, subject, of course, to the fact that it would be desirable when exchange falls to cut down your offer of Councils, as is done at present.

8270. But on principle, subject to prudence and common business methods in dealing with the moment, you would follow that general scheme?—Yes.

8271. You would not be prepared to take the other line of saying, under no circumstances will I sell, say, under 1s. 4d.?—I should not. I think a great many of the criticisms in connection with the present practice leave out of sight the fact that, if you never sell under 1s. 4d., you may find there is a large balance of trade against Australia, and then all the Australian sovereigns will come to India and swamp India. It is the gold export point from England that you have named, and it leaves out the fact that it may still be profitable to send sovereigns from Australia or from Egypt.

8272. Do you think that if the opposite policy, which you do not favour, were pursued of never selling under 1s. 4d. the Government of India could get the amount that it has at present to cover by Councils? I suggest that would depend upon the circumstances perhaps of the given year, but there is by no means a certainty that they could get it across?—I think I am right in saying that either last year or the year before was the first year, for many years at any rate, in which the Government did not sell at some period of the year under 1s. 4d.

8273. Suppose the Government of India and the Secretary of State in Council decide to make a change in the financial year, taking the 1st October as the starting point, that would mean that you would have an odd six months to get right before you got on to the new financial year?—Yes.

8274. As a practical man, in dealing with such a position would you not be disposed to begin by taking a budget for six months?—You mean to cover the transition period—for six months, or for 18 months is the alternative course.

8275. I am anxious to get your opinion?—I should be inclined, I think, subject to further consideration, to make a rough budget for the six months.

8276. You would be, of course, in an easier position then, because you would have only one unknown instead of two unknowns to guess at as compared with budgetting for 18 months?—I do not think it would be practicable to make your six months' budget in the same detail that the yearly budget is made in. I should be content with a rough budget for those six months.

8277. You would do it for six months?—I think so; that is to say, subject to further consideration.

8278. (*Sir Ernest Cable.*) There is one question that arises out of your answer to the Chairman about lapsed railway grants. It is rather difficult, is it not, for the Railway Department to spend the large sum of 10 to 12 millions at a year's notice, and lapses must occur under the present system, must they not?—I think there was very little lapse this last year when the grant was actually raised during the course of the year. I do not know exactly what the figures were.

8279. It was suggested to us by one of the witnesses that to employ these lapses, and to let the Railway Department know exactly what they have to spend, the Government of India should make out a 5-yearly programme for the railways, letting the Railway Department have 12 millions a year or whatever the sum might be, for five years, and letting them share in any surplus that might accrue. Would that be a practicable suggestion?—I do not think that that would be practicable, unless a separate railway fund was created, or some definite arrangement of that kind was made to secure continuity.

8280. Would you favour the plan, or would you not, of having a separate railway fund?—I do not think I would like to go quite so far as that, but while not being prepared to go quite to that extent, I should like to see our balances high, in view of the additional permanency which we would get for our capital expenditure. High balances such as we have got now, are an assurance that our railway expenditure will be more regular.

8281. Then you are not in favour of the close budgetting which has been talked about, and you rather like these heavy surpluses?—I think very close budgetting is impossible and dangerous in India.

8282. You would like to err on the side of caution?—Yes.

8283. I notice that in the part of your memorandum referring to the question of the amalgamation of the Gold Standard Reserve and the Currency Reserve, you do not object to the amalgamation on principle but merely because you think it might shake public confidence (page 587, paragraph 36)?—I think I do object to it on principle, and I think the fact that it might shake public confidence was only one reason for objecting to it. My own view is that they are intended to serve two different objects, and each Reserve must be managed in such a way as to ensure its securing its own object.

8284. But the one Reserve is frequently used to secure the object of the other Reserve?—If that advantage can be incidentally obtained, there is no particular objection to it.

8285. (*Mr. Keynes.*) Why are the railways not allowed to carry over unspent balances from one year to another?—I find that a very hard question to answer, because I have always thought myself that it might be possible to allow it. I have always thought personally—I am not expressing this as the opinion of Government but as my own—that it might be possible

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to arrange for the railways to carry over unspent balances.

8286. What are the reasons, good or bad, which influence the Government in adopting the opposite policy?—It has been held, I believe, that it would affect the general Government ways and means programme.

8287. In paragraph 25 of your memorandum (page 585), with regard to the competition between notes and gold, you say that there is no "suggestion of" endeavouring to extend the circulation of gold to "any extent at the expense of notes." If you take a long view, is not the circulation of gold almost necessarily at the expense of notes?—It may be to some extent at the expense of rupees.

8288. Is it credible that over a long period people will continue to use rupees for large payments? Is not their inconvenience so great that their use must be something which will disappear in the course of time?—That is theoretically so; but in India we find that things which are theoretically correct are not always practically so.

8289. Is that not the actual experience? In Northern India, and some other parts, are they not getting into the habit of using gold instead of rupees; and in Bengal, and certain other parts, are they not getting into the habit of using notes instead of rupees? Is there not a general tendency to use some substitute for rupees in the case of large payments?—That is so to some extent. There is also a very rapid concurrent increase in the rupee circulation.

8290. I was not asking about that point. I was asking about the use of a particular form of exchange for large payments and for remittance. Would you maintain that there are some parts of India in which, taking a long view, it is incredible that paper should be used, and therefore that gold must necessarily be the substitute for rupees? Are there any parts of India of which you would say that was the case?—I should think it probable that there must be some competition between gold and notes.

8291. My point is that it is useless to say that we should like gold to circulate, but we do not want it to be at the expense of notes, because *prima facie* there must always be a tendency for any gold which circulates to replace notes to some extent in the long run. Would you agree to that?—I am not quite certain that I can answer your question by an exact Yes or No. I do not think I have suggested that we should attempt to force gold into circulation at all. I would be quite happy to see it there, but I do not think it is essential, as I rather think you imply is my opinion, that we should have a large gold circulation; and I do not think the Government ought to take any steps to force gold into circulation.

8292. Do you think they would be right to take steps to popularise notes?—They have taken steps to popularise notes, and I think they have been perfectly right in doing so.

8293. And would be right in taking further steps if such were available?—Generally speaking, yes, if such steps are legitimate. I should like to know what steps it is proposed to take.

8294. Such steps as opening additional currency offices?—I think so; and I think the Government are generally taking steps to do that. I know one or two cases in which they have been improving the position of the currency offices.

8295. Would it be wise or foolish to take similar steps in regard to gold?—The steps which have been taken with regard to notes are unnecessary with regard to gold; I mean gold is a universal legal tender, and always has been since our present currency system was adopted.

8296. I was not asking about legal tender. In popularising notes, one of the things you can do is to make them available in more places?—Yes.

8297. You could also do that if you like in regard to gold?—I think notes are available at practically all our sub-Treasuries all over India.

8298. I am not asking a question of fact, I am asking a question of policy. You have agreed that it would be wise to make notes available at more places,

would it be wise to make gold available at more places?—I am not quite certain that my statement was that I agreed that it would be advisable to make notes available at more places. I think we should take steps to supply notes where required, and if our present arrangements are inadequate, I think we should undoubtedly consider the question of improving them. But I do not know that I have made any admission that they were inadequate.

8299. You are not prepared to make any more precise statement on this question?—No. I am all for popularising notes and taking any steps that may be useful in that direction, but I do not think it is necessary to force either notes or gold down the throats of people who do not want them. If people prefer to take rupees, I should let them have that coin.

8300. The drift of my examination is that it is not really possible to take a neutral attitude. Whenever the Government opens a new currency office they are helping notes, and whenever they send large consignments of gold up-country they are helping gold. Unless both were available with complete facility in every centre in India, which is not the case, a perfectly neutral policy is not conceivable?—Apart from more currency offices I think I may say that in nearly every Treasury and sub-Treasury in India there is a supply of currency in three forms—gold, notes, and rupees, and they are generally available to the public. I do not think that Government at present are favouring any one form as against the other.

8301. But they are not available, if I may say so, both ways round; you cannot encash them freely everywhere?—I do not know exactly what conveniences in the form of encashment are provided.

8302. In paragraph 27 (page 586) you say that you do not think the Government "should attempt" to husband the supply of gold by refusing to give it "out when available." Do you mean by that that at a time of crisis they should give out gold in India?—Yes, freely.

8303. You do not think that they should keep their gold for the purpose of supporting exchange solely?—I consider that would tend to support exchange. In answer to a question by the Chairman I think I expressed that view.

8304. Do you think it supports exchange as completely as if it is used for export?—No. I think I have already stated that I thought it would not have the same direct effect, but it would be a valuable weapon.

8305. But not equally valuable?—I do not think it would be equally valuable.

8306. In that case why are you in favour of supplying gold in such circumstances?—We do not want to see sovereigns in India go to a premium, as I think that is rather a confession of weakness. For some years after the 1907 crisis I think sovereigns were at a premium of about 3d. or 4d. Shield sovereigns, I think, are still at a premium; but that, of course, is a fancy price.

8307. (Chairman.) The shield sovereign is a question of ornament, is it not?—Yes, I think so.

8308. (Mr. Keynes.) Do you think it would be wise to pursue that policy even at a time of crisis, bearing in mind the fact that the premium could be no more than the cost of importing sovereigns from England?—If adequate reserves are held I hope it will never come to that. That is one of my reasons for wishing to see our reserves rather stronger than they are at present.

8309. (Sir Shapurji Broacha.) According to paragraph 5 of your memorandum, page 577, in 1910-11 there was a lapse of 3 millions, and in that year the railway programme was 9½ millions?—Yes.

8310. Was the 3 millions carried to that 9½ millions for railway works, or was it eliminated altogether?—You can say either that it was included in the 9½ millions, or that it was eliminated altogether. The 9½ millions was the total amount.

8311. Therefore, if the previous year's figure was taken off, it would amount only to 6½ millions for that year?—I suppose it comes to that. But it is 6½ millions in addition to expenditure which had been

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contemplated in the previous year, but had not been incurred.

8312. If the lapsed amount was included in the 9½ millions, then you were not authorised to spend in 1911–12 12½ millions?—No; it was 9½ millions.

8313. Would it not be an advantage that this lapsed grant should be carried forward in order to have a continuous programme to spend, say, 10 millions or 12 millions annually?—I have already expressed the view that if that could be arranged I should like to see it.

8314. What is your opinion about these lapsed grants? Should they not be added to the next year's provision?—If it was practicable I should like to see arrangements made for carrying forward such lapsed grants. At present the arrangement has been adopted of over-certifying railway indents, which should to some extent in future operate to prevent lapses on the same scale in which they have occurred before. I think that was adopted during the course of last year or slightly earlier.

8315. The Chairman suggested the changing of the budget date to October; that of course would be an impediment to the Governor coming down to the plains. What is the nature of the climate in Delhi in October; is it getting cool?—I have not heard that towards the end of October the weather is getting worse.

8316. Dealing now with the suggestion that the Presidency Banks should be given liberty to borrow in England, I do not think it would be an advantage to them to bring money out to India unless they can remit back in export bills, because otherwise the cost would be very great. If they brought it for six months, it would cost them 1½ per cent. to get the money out to India and to take the money back for payment in England. It would therefore cost them 3 per cent. more than the 3 per cent. charge for the loan, because, of course, 1½ per cent. for six months is 3 per cent. per annum. Even if they were to borrow for 12 months they would have to add 1½ per cent. for bringing it to India and taking it back to England. Therefore, if they were allowed to borrow, it would be no advantage to them unless they had the privilege of buying bills for export?—I understood that the Presidency Banks at one time were very anxious to get that liberty of borrowing in England.

8317. They were, but I do not think they would take advantage of it, if it were given to them now?—I stated in answer to the Chairman, that I did not think the absence of the power to borrow was a serious defect at the present time.

8318. If they were to buy export bills, then they would come into competition with the exchange banks?—Yes.

8319. And the exchange banks, I suppose, would object, because the Presidency Banks are subsidised banks, and therefore the exchange banks would not have fair play?—I presume the exchange banks might object.

8320. I gather that you are in favour of a mint in India?—I am in favour of it.

8321. Not for any practical advantage that might arise from it, but in order to satisfy the sentiment of the people?—And I can see that theoretically and possibly practically there might be certain advantages. I would like the experiment of a mint to be tried.

8322. You do not mind spending a certain amount of money, and afterwards scrapping the machinery, for the sentiment of the people?—I am afraid we should have to undertake the necessary expenditure in that case.

8323. Which coin do you prefer?—I should prefer the sovereign.

8324. Not the 10-rupee piece?—No.

8325. You say in your memorandum that you are in favour of exchange at 1s. 4d.?—Yes.

8326. Let us take this instance: Australia remits gold as merchandise because it has gold mines, and South Africa also remits gold as merchandise. The value of a sovereign in London is a sovereign and nothing more, and the remitters have to pay freight, insurance, interest and commission?—Yes, that is so.

8327. So it would be an advantage, instead of sending the sovereigns here, to send the sovereigns at the same rates to India, because they would have 24 days less interest to pay; you could, for instance, have sovereigns in India from Fremantle in 11 days, whereas it would take 35 days to send them to London?—Sovereigns do come very largely from Australia to India.

8328. Suppose the Secretary of State were not to sell bills up to September, and the banks satisfied their needs in India by Australian sovereigns, what would happen then?—The amount of the Australian sovereigns available varies very much from year to year.

8329. I know that in six months two years ago they sent about 11 or 12 millions of sovereigns?—The figure was very large the year before last.

8330. In that year the Secretary of State did not sell, say, until October under 1s. 4d., and at the end of September the Secretary of State found the conditions of India were famine conditions. The Secretary of State had not taken advantage of the market rate, and he was short of funds to the amount of 17 millions. Is it a good policy if you stick to the 1s. 4d.?—I did not entirely understand your question (*i.e.*, 8325). I assumed that when you asked me whether I approved of the fixing of exchange at 1s. 4d., you meant whether I approved generally of the fixing of the rupee at 1s. 4d.?

8331. It is just the same. The Secretary of State must sell at exchange value, that is to say, at par value, to and fro, and not stick out for 1s. 4d. at any time?—I agree. I must apologise for having misunderstood your question. I thought you were asking me generally if I agreed with the policy of fixing the rupee under the gold standard system at 1s. 4d., and I did not understand that you were referring to this other point.

8332. You would agree that the Secretary of State must meet the market?—I quite agree with that.

8333. Do you know that the Currency Department refused to give sovereigns from 1908 to 1911, and that they did not resume giving sovereigns till 1911?—It was either the end of 1910 or the beginning of 1911.

8334. Did it create a mistrust of the currency because sovereigns were not given against rupees; do you know of any dissatisfaction in India about that?—"Dissatisfaction" is rather a difficult word to apply, I think, to the position. I think I have seen the weakness of the Government's position criticised in that they were not able to meet any demand for sovereigns.

8335. I do not remember seeing anywhere in the newspapers the Government's position being criticised?—I cannot remember definitely at this date, but I think I am correct in stating that some of the banks addressed Government on the subject. Government at that time, when their reserves were not so full, limited the amount they gave out to parcels of 10,000 sovereigns.

8336. The Exchange Banks did complain when the Government put the value down to 1s. 3½d., and they petitioned the Secretary of State here, but so soon as the par of exchange rose to 1s. 3¾d., I think the complaint ceased, and that the stopping the giving of sovereigns was subsequent to that complaint?—I cannot cite any particular newspaper at the present moment, but I have certainly been under the impression that the Government's position in having no sovereigns in India has been criticised as being a position of weakness.

8337. Do you not remember a newspaper criticising the position which the Secretary of State and the Government of India created by breaking the par of exchange? I know that criticism was very serious and very severe, but I do not remember between 1908 and the end of 1910, or the beginning of 1911, any criticism or complaint for refusing sovereigns against the tender of rupees, because Government had a statutory power to refuse?—I am under the impression that criticisms were made.

8338. But the Government had statutory power to refuse to give sovereigns?—They have always retained that power.

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8339. If the Government were to commence to refuse giving sovereigns now, notwithstanding having them in the Currency Reserve, I think we may infer from that that there would be something like two years during which there would not be any complaint, and that the people would get accustomed to these large reserves, as being the intention of the Government?—I really do not know whether people would get accustomed to seeing these large reserves of gold or not. I am afraid that the action of the Government in holding large reserves of gold and failing to give it out when required, would meet with criticism.

8340. If the people became aware of the intention of the Government to make as large a gold reserve as possible for the benefit of exchange, I do not think there would be much complaint?—It is possible that the complaint might not be very —

8341. Serious?—Noisy, I would say.

8342. They are accustomed in France not to complain, but to take 5-franc pieces for all debts?—It is an inconvenience, though, that you can only claim 5-franc pieces when you are travelling on the Continent.

8343. Would not the people get accustomed, like the French people, to use silver?—I did not get accustomed to it.

8344. Would it not be better that the Government should keep the gold, when they know that it is not to the people's disadvantage, rather than that it should be the custom that the people should receive sovereigns, and then that should be stopped all of a sudden?—My position is that the Government reserves should be sufficiently strong, so that it would not be necessary for them to stop all of a sudden.

8345. (*Sir James Begbie.*) You have told us that the standard of India is nominally a gold one?—Yes.

8346. In paragraph 26 of your Memorandum (page 586), you have discussed the question of the exchange standard; is it your suggestion that the currency of India is being conducted on the lines of an exchange standard?—It has been conducted largely on the lines of an exchange standard, I think, inasmuch as Government has now practically undertaken to maintain exchange by the sale of sterling bills on London, when exchange falls to 1s. 3½d. My own view, as I think I have already stated, is that Government should also be prepared to meet demands on it for gold. That is not a necessary concomitant of an exchange standard.

8347. So far as I understand you, the present system is an exchange standard in its working?—The means adopted by Government to support exchange have been, and must, I think, necessarily continue to be, those which would be necessary to work an exchange standard.

8348. I want to see how far that applies to the Indian system. You explain this exchange standard to mean that the local currency is not necessarily redeemable in gold, but that it is kept near a fixed par with gold, by control by Government of the foreign exchanges. Do you mean that the control is exercised by the sale of bills?—Yes, that is what it comes to.

8349. When you say the scheme is to keep the local currency near a fixed par of gold, do you mean a fraction above or a fraction below par?—I mean within the gold point on one side or the other.

8350. The local currency you refer to would, I presume, include the note issue in India?—As a matter of practice I suppose that must be included. Though the exchange standard is concerned primarily with the rupee currency, the Government is, of course, equally committed in respect of the paper currency.

8351. You have already said that Government should have the option of redemption in either sovereigns or rupees?—Yes.

8352. Owing to the great increase in the note circulation, a considerable portion of the coin reserve is now held in sovereigns in the Paper Currency Department, is it not?—Yes.

8353. I think you have already told us also, that the gold held in the Paper Currency Department is the most satisfactory gold reserve held by Government from a currency point of view?—I do not know that I made that statement. What I intended to state

was that, provided Government holds a sufficient reserve of gold in India, I do not regard it as very material whether they hold a separate branch of the Gold Standard Reserve there, or whether they hold the whole amount which is necessary for their purposes in the Paper Currency Reserve.

8354. The point I wanted to bring out was that in the case of the Gold Standard Reserve there is only one-third of the currency saved in the form of gold reserves?—That is so.

8355. But in the case of the Paper Currency Reserve you get the whole of the gold saved?—Yes.

8356. Would you say that these gold reserves in the Paper Currency Department have been accumulated by the Government controlling the foreign exchanges?—They have accumulated as the result of the action of the Secretary of State in limiting his Council bills to a certain extent, but I do not know that it could be said that the Secretary of State's action in limiting his bills was a control of the foreign exchanges.

8357. For the time being he has ceased to control foreign exchanges?—That is a matter of definition, I think.

8358. At any rate, so far as this reserve is concerned, the gold which has come in must have been imported at gold import point?—If gold comes in from England it must come in at the gold import point; but gold may come in from Australia, I imagine, below that.

8359. But still at a gold point?—That is a gold point, but it is not what is commonly called the gold point. In India we generally mean, when we speak of the gold point, the gold point with reference to London.

8360. In the case of that portion of the Paper Currency Reserve held in London, that would not necessarily have been laid down at the gold import point; it might have been provided by the sale of bills at a lower rate?—Yes.

8361. Now I come to the local currency consisting of rupees. We have had evidence that additions have been made to the silver currency by sales of bills at rates below the inward specie point of exchange; do you approve of that procedure?—At rates below the specie point? For the purpose of clearness may I speak of the specie point with reference to London.

8362. You may take it so?—Then my answer is, Yes.

8363. Does it not mean that India is called upon to absorb more metallic currency before an addition to the currency is due?—I do not think that follows. The position appears to me to be that if those bills had not been sold, gold would have come in from Australia below what we call our specie point with reference to London, and would have been presented at the Treasuries in demand for rupees and would have lain in the Government balances in India.

8364. In the case of the sales of bills below the lowest gold specie point, that would be adding to the currency before an addition to the currency was due, would it not?—I do not know that that necessarily follows. Do you mean if the Secretary of State sells bills below 1s. 3½d.?

8365. If he sells bills below the cheapest inward specie point. Supposing Australia can import specie into India at 1s. 4½d., then if you sell bills on London below that point, does that not encourage an addition to the currency before it is due?—I do not think that it need necessarily do so. Certain remittances would have to be made by trade to India, and if it is not possible to make those remittances in the form of Council Bills, they will come out in some other form, and those remittances will require currency to enable the transactions to which they relate to be completed.

8366. Under the regulations now existing, is it not the case that the currency can be automatically increased only by the importation of sovereigns?—Automatically?

8367. That is, the only way by which you can have an automatic addition to the currency of India is by the importation of sovereigns; is that not so?—I find it rather difficult to answer that question, because again I have a difficulty of definition. I do not want to ask

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you a question, but if you do not mind, may I ask this : Would you call it an automatic increase if a bank buys Councils from the Secretary of State and obtains rupees, and it is necessary, in order to supply the trade demand for rupees occurring in that way, to make purchases of fresh silver?

(Mr. Keynes.) Would you accept, instead of the word "automatic," "legally enforceable"?

8368. (Sir James Begbie.) No, I want to get "automatic" in.—If the purchase of bills necessitates the purchase of silver by Government—

8369. That would be an addition, would it not?—Would it be an automatic addition?

8370. It would not be automatic unless it were made at the gold specie point. The only way under the present regulations by which the currency of India can be added to, as I understand, is by someone importing sovereigns; I do not know of any other way in which the currency can be increased.—I should have held that it could be increased—

8371. Automatically, I mean?—I can state another method by which it can be increased. I do not know whether I should call it automatic, or whether I should not call it automatic. It is to me rather a nice matter of definition.

8372. Let us turn to another aspect of the same question. Are you familiar with the circumstances under which the decision was come to last year to undertake fresh coinage of silver?—Yes, I am more or less familiar.

8373. The position then was, was it not, that there had been very large imports of sovereigns, and there were very large quantities of sovereigns held in reserve, but the silver reserve had fallen to a low point?—It had fallen to a very low point by the middle or end of April, I think.

8374. And the Government considered it necessary to re-enforce the silver reserve?—Yes.

8375. What was wanted at that time was a substitution of silver currency for the gold in the Reserve?—For a portion of it.

8376. I would ask you whether you are aware that the procedure followed was to sell Council Bills, and to lay down money to buy the silver?—I think that was the case, but I rather fancy that the money was originally taken from Treasury balances, and remittances adjusting the transaction were made. It was after I left India on leave, and I am not certain about that.

8377. Supposing that the money was laid down in London by the sale of Council Bills, would not the effect be an addition to the total currency in India?—The effect must necessarily be an addition to the total currency in India in that case.

8378. India had, in consequence, to carry more metallic currency than was really necessary at the time, that is, she was obliged to absorb more than was necessary at the time?—In case she had used the gold, that would have been equivalent to an addition to the metallic currency, if the gold had been taken from the Government reserves against the sales of Council Bills.

8379. I am taking it that the gold was not used to buy silver, but the silver was bought by the proceeds of Council Bills, and therefore the new currency was an addition to the currency of India. Do you follow that?—I do follow it, but I do not quite understand your conclusion. It appears to me that if the public, which I understand is your point, had been equally willing to take gold as to take silver in satisfaction of the Council Bills that were sold, the gold would have passed into circulation, and that would have been an addition to the currency. I do not understand why there should be an addition to the currency if rupees are passed into circulation, when there would be no addition to the currency if sovereigns are passed into circulation, against the sale of Council Bills. That is the point I am not quite clear about. Perhaps I have not quite understood your question.

8380. The question was simply this : If the Government had used gold from their reserves last year to buy silver for the purchase of coinage, would that have been an addition to the total currency of India?—When the silver passed into circulation?

8381. Apart from circulation; my question relates to the total currency of India, which includes both the currency in the reserves and the circulation. If you part with gold and buy silver, it means, does it not, that the total amount of the currency remains the same, except that you have got more silver and a little less gold? The point I wanted to get at was this : If Government is to control foreign exchanges, it is a very important point at what stage they should intervene with the foreign exchange; would you agree to that?—Yes.

8382. (Mr. Gillan.) I will first refer to the matter of the change of the budget date, about which the Chairman questioned you. I think your attitude there was that considerable advantages possibly could be gained, but the fact was that the question would have to be very carefully considered?—Yes.

8383. As far as you can see, do you anticipate any practical difficulties?—So far as I can see, I cannot think of any, except, of course, the additional labour of preparing an extra intermediate budget.

8384. The difficulty of the transition period, in fact?—Yes.

8385. In any case, would you agree that even if there are some difficulties to be overcome, the advantages of getting a date which would give more certainty to the estimates of the Government of India would be so large as to make it worth while to overtake those difficulties if any method of dealing with them were found possible?—Yes.

8386. I ask you that as an officer who has been practically concerned in dealing with the budget, and knows what difficulties we have at the present date which is fixed for the budget period?—Yes, there are difficulties now. I think that the exact date adopted would require very careful consideration, whether, say, the 1st October or the 1st September, or the 1st November. I think that point would have to be considered before coming to any decision. Generally speaking, it certainly seems to give us a better opportunity of more accurate budgeting than the present date does.

8387. In paragraph 25 of your memorandum on page 584, you say, "The sovereign is in fact, in my opinion, a suitable coin for India generally." I want to ask you for what particular purposes is it suitable? I suppose you would agree that the great number of payments that Indians have to make are of very small amounts with the great bulk of the population?—Yes.

8388. Have you any knowledge of the amounts that they have to pay, even in what one would consider a larger payment, that is to say, in the matter of rent?—Do you mean the total rent payable in India during a year.

8389. No, the ordinary rent payable by an individual. Would it amount ordinarily to 15 rupees for six months in the case of the small cultivator?—I think not; but it is so long since I have been in a district now that I would not like to make any definite statement.

8390. It has been suggested that except in certain parts of India, where the people are better off and have larger rents to pay, as in the Punjab, for instance, it is possible that the sovereign is not so useful for payments as it is for hoarding. Would that be your impression? If a man has both gold and silver in his possession and most of his payments are in small amounts, much less than a sovereign, and he has to consider which he is going to put in his savings and which he is going to use for his ordinary day-to-day payments, it has been suggested that he would use the silver and keep the gold?—I can best illustrate the kind of case in which a sovereign might be used by referring to the class of transactions that occur in the districts that I know, that is, in the jute districts. The payments made not only to the intermediaries but to the cultivators, are, I should think, very large. The boat bringing jute down to the headquarters of the district can have 600 or 700 rupees worth of jute on board. That may be shared by two or three men, but still the payments to each of these men must be large. Though he may be financed by the mahájan, the ordinary cultivator at the end of the jute season is frequently able to incur a considerable

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amount of expenditure, for instance, in buying corrugated iron roofing. Nearly all the houses in eastern Bengal are roofed with corrugated iron now since jute has done so much for them. I suppose a sovereign would come into transactions of that kind.

8391. These jute tenants are able to pay more than 15 rupees in rent; I am not sure that you are not considering rather a larger kind of man than I am thinking of?—The people in the districts with which I am acquainted with are probably among the better-off cultivators.

8392. (Chairman.) In a case of that kind has gold any advantage over notes?—No, I do not think it has.

8393. Would the notes be acceptable to the cultivators who send in the jute?—It is a very curious fact that the cultivators in Eastern Bengal prefer silver rupees to anything else, and they do not care about gold or notes. The value of the jute crop, I think, was estimated a few years ago at something like 40 crores, which is 26 or 27 millions sterling. There is always an enormous outgoing of rupees at the time when the crop comes on the market, and it takes a very long time for those rupees to come back again. What happens to them I do not think anybody has ever yet found out.

8394. (Mr. Gillan.) The point I was going to put was that in those parts of India where you have payments on a very small scale, it is conceivable that a 10-rupee gold coin would be more useful than a sovereign, that is, if the ordinary payments are very small?—Certainly.

8395. In the same paragraph to which I have referred, paragraph 25, page 585, you suggest that "it is possible that a 10-rupee piece might compete with the 10-rupee note to a greater extent than the sovereign does." That result would follow only, would it not, if the 10-rupee coin were found to be more convenient than a 15-rupee coin?—I meant the 10-rupee pieces might be suitable for smaller transactions than the sovereign would.

8396. Unless a convenience were found in fact in the 10-rupee coin which the sovereign does not serve, it would not compete to any large extent with the note?—That is so.

8397. That leads up to the question of the gold mint. I do not know if you would say that the mint, if started, is likely to be scrapped within a few years?—I should not think there was any prospect of that at all. When using the word "experimental" I did not mean to say that it was to be put up and scrapped in a few years. I meant that the mint should be opened with the object of meeting any demand that might occur.

8398. At any rate, if it was said that a gold mint, if opened, will certainly be scrapped in a few years, you would perhaps agree that that involves a certain amount of assumption?—Yes.

8399. At the end of that paragraph to which I have just referred, you, in dealing with the gold mint, point out that gold "is now the standard metal of the Indian currency" and that "gold bullion in India can only be converted into legal tender currency in India by being sent to England (or Australia) and there coined into sovereigns" (page 585)?—That is so.

8400. You refer to that as an anomaly?—Yes, I do.

8401. That anomaly is, to a certain extent, is it not, a support to the sentiment to which you have referred in favour of a gold mint?—Yes.

8402. With regard to the Paper Currency Reserve, there is only one question I wish to ask you, and that is about paragraph 43 on page 590. You are there dealing with the form of the investment in the case of the paper currency, and you say that "when investments were made in sterling securities the gold position of the Government was very much weaker than it is now, and it was desired to strengthen it. Circumstances have now changed," and that side of the Government of India's defences "should be secure." Is that not rather regarding the Paper Currency Reserve from the point of view of the support of exchange purely?—Yes, it does seem to be.

8403. Would it not be better to say that the first, is in fact, we may almost say the only, point to be

considered in dealing with the Paper Currency Reserve is the question of convertibility, the securing of absolute security for the encashment of notes? Would you agree with that?—Yes, I should agree with that.

8404. From that point of view, it possibly will be better to mix your securities a little, and not to keep them all in one basket?—I think that is what I intended to say.

8405. That was not clear to me?—I intended to imply that as well, though I think that at the time the other aspect of the case, the exchange aspect of the case, did enter into consideration as far as I remember. My idea in making the suggestion was that we should not put all our eggs into one basket.

8406. Now I want to put a few questions about railway finance. The suggestion has been made that we should have in advance a railway programme for a certain number of years. The first point I would like to make clear in connection with your knowledge, is that this is a question which, as a matter of fact, has been very carefully considered from time to time by the Government of India and the Secretary of State?—It has been very carefully considered, and the Mackay Committee,* I think, went over the question again. I think it has always been found to be impracticable.

8407. There was, as a matter of fact, at one time, a three years' programme in force, was there not?—That was always subject to the qualification, I think, that in the event of any calamity such as famine or war, it might be necessary in the later years of the programme to reconsider the provisional allotments.

8408. I will come to that. There was a three years' programme which you describe as being more or less a nominal one?—Yes, or provisional.

8409. It was dropped, or rather, it was discontinued, because it was found to be of no great practical importance?—It was discontinued, I think, under the Secretary of State's instructions so far as I recollect.

8410. There are difficulties, are there not, when dealing with a programme so much in advance, that is to say, the Government of India have found it difficult enough to anticipate what they are going to get in the Budget year immediately following?—That is so.

8411. This would involve their anticipating the general financial position for the next three or perhaps five years?—Yes. I think in reply to Sir Ernest Cable I expressed my opinion that it was not practicable.

8412. So that if Government undertook this responsibility of a three years or five years' programme, they would have to harden their hearts and say that they would find a certain sum of money whether there was famine or war or an unfavourable aspect of the London money market, or whatever happened?—That is so.

8413. Without some undertaking of that kind, the programme would be found ineffective?—I think that is the case; in fact, I meant to express that view when I said that in order to have any guarantee of maintaining the programme you would have to maintain some railway fund.

8414. About this question of the lapses; in the same way I should like first to make it clear, if you happen to know about it, that that again is a question which has been very carefully considered?—I think it has been considered several times, and views have been expressed on both sides very strongly.

8415. Do you happen to know, for instance, whether it was considered by the Mackay Committee?—I think it was.†

8416. You do not remember what they said about it?—I do not remember the exact statement they made about it.

8417. I think you express yourself as being in favour of some re-allotment of the lapses?—Yes. I would like the question to be re-opened, at any rate.

8418. Suppose you have given the railways this year 12 millions and next Autumn when you come to a revision of your budget arrangements, the railways tell you that they will not be able to spend 12 millions, but they will spend 11 millions; you do not mean, do

* Cf. 4111, page 10, paragraph 7.
pp. 27-8, paragraph 34.

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[Continued.]

you, that that million of a lapse should necessarily and automatically be re-allotted to the railways for 1914-5?—I am not under the impression that the railways would be getting more money, which I believe a lot of people understand will be the case, or that this is implied by the re-allotment of lapses. If it is found at the end of 1911-12, say, that a million is going to lapse, and that it is going to be re-allotted, the railways will get a million less from some other source, but they will know that they have got that million and that that money is earmarked for the particular expenditure or liability for which it was originally granted. The great difficulty with many of the railway companies, I believe, is that at the end of the year—I am speaking of individual companies now and not of the railways as a whole—they have got large stores ordered, and they have got the money to pay for them, but they find that their stores are not delivered, and so their grant lapses. They have also got their programme made up for the next year and an allotment for that, and on the top of this they have got to pay their half-million for the railway wagons ordered in the previous year, and so they have got to disturb all their provisional allotment which they have made for the forthcoming year.

8419. What appears to me is that if the lapse of the one million is foreseen, the Government of India cannot keep it in a separate pocket but it must go into their balances, and they must reconsider the division of the whole of their funds among the whole of their railways?—The position, as I take it, is that these lapses are not always foreseen. The railway lapses as estimated have, I believe, on more than one occasion been very much less than they have proved to be when the final estimates were made up.

8420. That is precisely the point I was trying to put. Will you distinguish between a foreseen lapse and an unforeseen lapse?—A foreseen lapse is taken into account.

8421. And must be necessarily?—And must necessarily be taken into account.

8422. When you say that you are in favour of the re-allotment of lapses do you mean the foreseen lapses?—If it is put in that way I should, but I should much prefer, if it were possible, to make the railway programme more self-contained. If I can make myself clear in the matter, I mean that Government should, in making their revision in March with regard to the foreseen lapses, say: We will not get this lapse, this is allocated to the railway company against their programme of the past year, so we have not got this money to play with for the year on which we are about to enter.

8423. (Chairman.) You would, in fact, carry it into a suspense account?—Yes. The position would be the same as the one Mr. Gillan is putting to me, but I should be inclined to think that if any arrangement of the kind was practicable, it should be put in a somewhat different way.

8424. Suppose that to a particular railway there had been allotted a certain sum of money in the year 1911-12, and that included half a million for rolling stock, but owing to a strike in this country or to other reasons, the contractor failed to deliver; what happens to that half million? Suppose that it had been planned further to give the company in 1912-13 one million, does the company then get a million and a half, or does it still only get one million?—The company has to make the best terms possible with the Railway Board to increase their grant if they can, I imagine: but very often they may have to cut down some of their other expenditure in order to provide for that half million.

8425. So it might happen that, having got a plan of railway construction for the coming year, the railway company has had at the last moment to halve that plan because a contractor has failed to deliver supplies, and so they could not be paid for within the previous year?—That is what I have understood from the railway authorities does happen, and that is where the pinch really comes—it is in the lapse of the individual company.

8426. (Lord Faber.) Would there be any difficulty, in your view, in a Railway Board, so to speak, being appointed for India, and that Board laying down a policy of borrowing five years ahead some millions every year in London, it does not matter how many millions, but we will say 5 millions; those 5 millions are paid over to the Board every year, and the Board then have to consider how that money should be allotted to the railways; then if a railway one year is not able to spend the exact amount allotted to it, it gets it the next year; or it might almost go in the other direction, although that is more difficult, and if they spend rather more in one year than is allocated to them, it would come off the next year. Would there be any difficulty in that if you get clear away from the Indian Budget, so to speak, and have a separate compartment altogether?—That question generally was one of those that did come up before the Mackay Committee.* They said,† We will borrow in London, I forget whether it was 7 millions or 8 millions, or what they said, but actually the first year it was 2 millions, then it was one-and-a-third, I think, and the next year it was about a quarter of a million, and so the scheme broke down by its own weight—wholly on that account.

8427. Why did they change their policy?—I think India 3½ per cents., which are now at 86, were at 97 then.

8428. When you are getting good returns as you are getting on the Indian railways now—it is something over 5 per cent. on the whole of the railways—is it the right policy, in your opinion, to disregard at the moment the price at which you issue the stock, looking to the ultimate needs of the whole railway system of India? Surely you would not postpone, would you, because you would have to pay a little more for the money than you are in the habit of paying?—I am not familiar enough with the London market to know what would be the best course in those circumstances. It might be possible, one would think, to borrow money repayable in instalments over 20 years or something of that sort, and in that way to get better terms. Apparently, conditions have been fairly stringent in the last year or so. I should personally have liked to be able to ensure some continuous system of borrowing, but apparently that has not been found practicable. As to keeping the railway finance in a separate compartment, I do not know that I find it possible to express any view about that. You have to consider what you would do in a bad year. It is only four years ago, I think, that the railways were not making both ends meet.

8429. Loose balances in the Indian budget are not desirable. It is better to take a railway balance out of the Indian budget and earmark it for the railways, is it not?—I am not quite certain that the Mackay Committee did not consider that point of the constitution of a separate railway fund,* but I think I am correct in stating that they were rather doubtful whether it would be practicable. It would be possible to employ at once for capital expenditure all the money which at that time they could look forward to being able to raise; I think that was rather the conclusion that they come to.

8430. (Sir Robert Chalmers.) May I ask you a question as regards the way in which on this hypothesis you could borrow: Would you borrow with reference to the amounts that you have found would actually come in course for payment and require an issue? Let me make it a little plainer to you; assuming that the idea is that 5 millions will be spent—that is the basis on which you start—then it is found as the time comes for borrowing, that as a matter of fact at that time only 4 millions would be actually needed as the first instalment, would you not restrict your borrowing to the 4 millions that were actually required as a matter of ways and means?—I cannot help returning rather an evasive answer to that question. I think that the position is one in which one would require a very intimate knowledge of the market.

* Cd. 4111, paragraph 29, page 21.

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[Continued.]

8431. Is it not a very simple proposition that you borrow in order to issue, and you borrow only that amount which you need to issue at the time?—In our case it has been found so difficult to borrow all the

money that we want, that the Mackay Committee recommended that we should borrow in advance with reference to the position of the market at the time as well as with reference to our immediate requirements.

The witness withdrew.

At the India Office, Whitehall, S.W.

TWENTIETH DAY.

Wednesday, 6th August 1913.

PRESENT:

THE RIGHT HON. AUSTEN CHAMBERLAIN, M.P. (*Chairman*).

Lord FABER.
Sir ROBERT CHALMERS, K.C.B.
Sir ERNEST CABLE.
Sir SHAPURJI BURJORJI BROACHA.
Sir JAMES BEGBIE.

Mr. ROBERT WOODBURN GILLAN, C.S.I.
Mr. HENRY NEVILLE GLADSTONE.
Mr. JOHN MAYNARD KEYNES.
Mr. BASIL P. BLACKETT (*Secretary*).

Mr. THOMAS SMITH called and examined.

8432. (*Chairman*.) Will you kindly tell the Commission what your Indian experience has been?—I have set it out in an outline of my evidence which has probably been handed to the Commission.

8433. Yes. I propose to print the memorandum which you have submitted (*see* Appendix, No. XXVII., page 612), so that we need not repeat the whole of it in your evidence, but I would just like to have on record with your evidence the brief account you have given of your Indian experience. You have had 18 years' experience?—Yes, 18 years' experience in India, for 17 years of which I have been agent of the Allahabad Bank.

8434. Mainly at Cawnpore and Calcutta?—Mainly at Cawnpore and Calcutta, yes.

8435. How much of your time has been spent in Cawnpore?—Between 12 and 13 years, and 4 years in Calcutta.

8436. You were formerly vice-president of the Upper India Chamber of Commerce?—Yes.

8437. Do you represent their views here to-day?—As a matter of fact, I asked for their views, and I was rather delayed in the preparation of this outline of evidence until I heard from them two mails ago. They said they felt that it would be useless for them to send home instructions, and they preferred to leave it to a sub-committee composed of Sir Alexander McRobert and myself; and Sir Alexander and I did meet and discuss the matter, and in so far as our evidence goes forward I suppose it may be taken as the evidence of the Upper India Chamber.

8438. The memorandum which you have handed to us is the result of that conference?—It is the result of a conference between Sir Alexander and myself. Of course, the Upper India Chamber may not agree *in toto*, but, in so far as they have left the matter to us, I think they must take the responsibility of what we say.

8439. From that memorandum I gather that you make no serious criticism of the management of the balances in recent years?—Except in the years which I have mentioned, 1910, 1911 and 1912, making allowances for the difficulties under which these balances accrue.

8440. And even in those years does your criticism go further than this, that the India bills which were paid off in December 1912, might well have been paid off earlier?—I think that is the principal point. I do not know that I am prepared to raise any other point in connection with it.

8441. You think that the Government is a little over-cautious?—Apparently so in underestimating.

8442. I take it that that is the extent of your criticism?—Yes, that is the extent of it, and the under-estimating is probably justified because of the extraordinary conditions which prevail in India.

8443. I turn to the question of banking facilities. You are, I understand, definitely opposed to the establishment of a Central Bank?—At present. I seek here to raise some of the obstacles to a Central Bank.

8444. May I take it that your opinion in the first instance is that there is no need for such an institution?—I do not think there is.

8445. I understand from your memorandum that in so far as work which we might call general banking work is done by Government you think it is very well done?—Very well done.

8446. And would not be better done by a Central Bank?—I do not think so.

8447. On the other hand, I understand you to feel, and to feel strongly, that one central institution could not have sufficient detailed knowledge of the circumstances in different parts of India?—I think not.

8448. Take the Presidency Banks: they themselves cover a very large area, do they not?—Yes, they do.

8449. The Bank of Bengal, for instance?—Yes, the Punjab, the United Provinces and Bengal.

8450. Does Burma come within its sphere?—Yes.

8451. Within their sphere, therefore, are there not circumstances as diverse and as widely distinguished as between Bengal itself and any other part of India?—Not to the same extent that you would find throughout the whole of India.

8452. You think, therefore, that though it may be possible for one board efficiently to direct the Bank of Bengal, with that sphere of influence, it would be impossible for one board to direct a Central Bank for the whole of India?—I do not say it would be impossible, but I do not think the results would be so good.

8453. You do not think the results would be as good as having the three separate institutions?—I think not.

8454. You state in your memorandum that "it is a hopeful sign to see money in the country flowing freely to the banks for investment" (paragraph 11, page 613). Does that refer to the growth in the deposits of which you speak?—Yes.

8455. Do you think that the banks in recent years have tapped new sources of supply for their deposits?—I think more people are getting in touch with banking.

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[Continued.]

8456. Are new classes being induced to confide their savings to the banks?—You see a good many banks now are opening out what you might call sub-agencies at small and unimportant places, and there is money coming in there.

8457. Where those sub-agencies are opened can you say from your own knowledge whether the business which they do is mostly to receive deposits or to lend money out?—There may be some branches which are receiving deposits, and others may be purely lending.

8458. I think one banking witness who came before us said that in his experience, when you opened a branch the business that came was always a demand for loans, and not an offer of deposits?—That is very often why a bank opens a branch—to get its money invested and to get it put out.

8459. You cannot say very definitely whether the banks are reaching new classes of depositors now?—I think that there are people who did not deposit before but who are coming now and making small deposits.

8460. In this connection, you call our attention in your memorandum to the danger to banking in India of the growth of what I think you describe as mushroom banks, which have nothing of the bank about them except the name?—That is all.

8461. You feel, I suppose, that it would be a great shock to all banks in India if those institutions under the name of banks came to grief?—Undoubtedly.

8462. It would tend to put back the growing trust of the people in banks?—Yes, especially people who are not very well versed in these things. It would be sufficient for them to say that the bank had *bigar gaya* (failed).

8463. I think the attention of the Indian Government has been called to the matter?—Yes.

8464. And you say that legislation is assured?—It is practically promised.

8465. May I ask you whether you think that your view as to the absence of any necessity for a central bank is generally shared among commercial classes in India?—So far as we are concerned in the United Provinces, we are very well content with the present facilities, and I should doubt very much if Bengal would care for a central bank. At present their rate is often, generally speaking, one per cent. less than the Bank of Bombay, which again is very often one per cent. less than Madras, so that it would mean that the benefits which Bengal has now would have to be spread over the whole of India.

8466. As far as you are aware, there is no general demand for the creation of such an institution?—I think not.

8467. And you think there is no general dissatisfaction with the present banking facilities?—No, I think certainly not.

8468. I think you observe in your memorandum that, though there is some stringency at the busy period of the year, you do not think that there is any good ground for complaint as to the rate at which money can be borrowed in India?—No, on the whole I think not, if you take the whole year round.

8469. On the other hand, in dealing with the busy season do you favour the idea that Government should give some assistance to the money market at that time?—I set that out in my note (see page 614, paragraph 17).

8470. I would like to ask you in the first instance: Supposing it were agreed that Government might lend, to whom do you think they should make their loans?—To banks; I should confine it to banks.

8471. Would you confine it to the Presidency Banks or would you go beyond them?—I would go beyond Presidency Banks. There are banks, such as my own, which are in a position to give very good security if required.

8472. I understand that you would not propose to lend to any bank except on security?—No, except on security.

8473. Would you lend on commercial paper at all?—No. I think it would be better to confine it to

Government securities and Corporation and Port Trust Bonds.

8474. Would you go outside banks? Would you make loans to houses of high standing, or would you think it wiser for the Government to confine itself to banks?—The Government apparently are very much opposed to the idea. Suppose they made a start with banks they might find that it would go further, but I suggest in the first instance it should be given to banks.

8475. Of course, the Presidency Banks occupy a position by themselves?—Yes.

8476. The moment you go outside the Presidency Banks, might it not be very difficult for the Government to distinguish between those banks to whom it would be proper for them to lend and those to whom it would be undesirable that they should lend?—If they have got security and a good margin I do not see that the Government would stand very much risk. Their advances to the Presidency Banks and the Exchange Banks and the better class Joint Stock Banks would be perfectly safe. There might be an element of risk in the smaller Joint Stock Banks, but if they are adequately covered with a good margin—

8477. Of course, it is very important that the Government should have security for its loans, but it might be very inconvenient for them if they had to have recourse to their security?—It would, but with the banks which I have in mind, those which I have mentioned now, the Presidency, the Exchange, and better class Joint Stock Banks, I do not think they would go beyond their depth.

8478. Where would you invite the Government to draw the line between those which you call the better Joint Stock Banks and those which are not of the better class?—I do not see any risk of the borrowers defaulting at all if the Government have a good margin of security, because the smaller Joint Stock Banks could certainly not want very large sums, but the Presidency and Exchange and Joint Stock Banks with offices in Calcutta would, I should think, be perfectly safe.

8479. Suppose the Government of India decided, or the Commission recommended, if you like, that such assistance should be given by Government, but that in their opinion it would be well in the first instance not to go beyond the Presidency Banks, what would you say?—Then I think you would have the other Joint Stock Banks up in arms.

8480. That is what I wanted to put to you as a banker. If the Government were recommended to go no further than the Presidency Banks, do you think that would be considered so invidious a distinction that it would be better for the Government not to touch the position at all?—No; I should certainly say let the Government touch it, because even if only the Presidency Banks get it it reacts upon the other banks; that is to say, we would feel the benefit; the more the Presidency Banks have got to play with the easier would be the rate, so that certainly something would be gained by giving it even to Presidency Banks.

8481. So that though you would strongly urge that the better class Joint Stock Banks should be included in the list of approved borrowers, you would prefer that money should be lent in the busy season to Presidency Banks alone rather than that it should not be lent at all?—Undoubtedly.

8482. Let me ask you now what amount of money would the Government need to lend in order to affect the bank rate in the busy season?—It is very difficult indeed to hazard a figure.

8483. The object of your proposal that they should lend is to keep down the bank rate?—Exactly; and the knowledge that it is there, and is available, would have that tendency.

8484. But could you not give me any idea of what sum you think would probably be sufficient, in the early years at any rate?—I would not care to commit myself to that, because even in smaller estimates, for instance, when Government ask us in Cawnpore how much coin we should require, it is almost impossible to keep to that. You can never tell what India is going to do, and we may be absolutely wide of the mark.

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[Continued.]

8485. Do you think it might be a considerable amount?—Yes, I think it would be a considerable amount.

8486. Five crores or ten crores?—Ten crores would probably be nearer.

8487. You anticipate in that way that the rate, instead of going to 8 per cent., would be kept at 6 per cent.?—I think it would.

8488. Supposing that were done, and the bank rate did not go above 6 per cent., how far would the effect of that percolate down?—So far as regards borrowers who are borrowing on the basis of bank rate, either a fraction above or, as I believe some of the Presidency Banks do, a fraction below, they would score tremendously.

8489. They would be the big men?—They would be the big men, but as the other Joint Stock Banks also regulate their seasonal advances on the basis of the bank rate, it would also assist trade generally.

8490. Would it get to the cultivator? I do not mean to say would he have his money at 6 per cent., but would he have a corresponding reduction in the rate which he pays?—I doubt it very much.

8491. You do not think there is much connection between the rate he pays and the bank rate?—No, for the simple reason that he does not understand the sliding scale. The small man borrows on a fixed rate, and he is probably paying his 8 per cent. or 9 per cent., and he would not understand a sliding scale, a fluctuating rate.

8492. He might be borrowing at more than that, I suppose?—He might be, but from banks he is probably borrowing at 9 per cent.; some banks may probably be charging 12 per cent., but that is at small places.

8493. I understand one of the reasons suggested, or the main reason suggested, by those who desired the Government to give assistance in the busy season was that under present conditions, the rate being so high, the cultivators and the smaller people were obliged to sell their produce at once, regardless of the position of the market, and it was suggested that if they could borrow rather more cheaply against their produce they might hold it and get a better price?—To a great extent that is true, because if you are going to take bank rates of 8 or 9 per cent., then people who are borrowing at fixed rates, that is, the small borrowers, must expect, if the bank rate is still in the region of 9 per cent., to pay somewhere about that, and probably more, but if you can keep your bank rate down to 6 or 7 per cent., naturally rates will fall all round.

8494. In recent years has the bank rate ever gone as high as 9 per cent.?—I think not, speaking from memory. I think 8 per cent. is about the highest in the last two or three years.

8495. Seven or 8 per cent. are the normal figures?—They are the normal figures.

8496. On balance, I understand, you do not think that very much advantage would reach the cultivator?—It all depends, of course. If there is competition in the place where the cultivator is borrowing, the advantage would reach him.

8497. It will really be a question of supply and demand?—But he is in supreme ignorance of what is going on, and the only question would be that the bank would be very glad to lend it at 8 per cent. where they formerly lent it at 9 per cent.

8498. On the other hand, if he is in this unhappy state of ignorance he may be very well content to borrow at 9 per cent., even though the bank could afford to lend at 8 per cent.?—Quite so.

8499. I want to put to you one objection which has been suggested to us against the idea of the Government making loans of this kind. Supposing the Government had done it for four or five years out of surplus moneys that it had at its disposal—I may take it that you only suggest that they should do it when they have surplus money?—Yes, exactly.

8500. Suppose that on those four or five years in which they had done it there followed a lean year in which they had no surplus money?—But I am not referring so much to the advances from the balances,

which are a very fluctuating item; I am thinking more of what they have in the Currency Reserve.

8501. You think the loans should be made from the Currency Reserve?—I think so in the first place, because the balances are very fluctuating.

8502. That brings me to the Currency Reserve. I think you say in your memorandum that you think the fiduciary issue might be increased (page 617, paragraph 32). Is it your view—I think it is—that instead of being a fixed sum it should be a proportion of the total?—Yes, that is my view.

8503. What proportion do you suggest?—I suggest one-third of the gross average circulation.

8504. Will you tell me why you choose the figure of one-third?—It is a limit within which it seems perfectly reasonable and expedient that the Government could work.

8505. You take it as a point well within the limit of safety?—Yes, I think so.

8506. But do you infer that that point is a perfectly secure one from the course of the note issue in past years, or from experience of other countries, or in what way do you infer it?—It is based more on the Indian note issue.

8507. Then your suggestion would be, as I understand, that the fiduciary proportion being increased a proportion of that increase should not be permanently invested but should be held available to be loaned out in the busy season?—That is so.

8508. Returning to the banks for a moment; you do not advocate any change in the legal conditions under which they now work?—No.

8509. You do not think it necessary that they should have access to the London Money Market?—No, I do not think there is any occasion for that now. As regards their present limitations, they can pretty well drive a carriage and pair through them now.

8510. You say that some years ago they sought access to the London Money Market, but opinion generally was against them on that point?—Yes.

8511. Do you think that public opinion remains the same to-day?—I think it would.

8512. Following your memorandum I come to the section which deals with capital expenditure (page 615, paragraph 20). Would you think it an advantage to raise as much as possible of the capital required for Indian development in India?—As far as possible, yes.

8513. Do you think that more could be raised than has been done?—I think so.

8514. But I gather you think not much more?—Not much more. I have not exactly the figures beside me, but I fancy a very big loan would not go well in India if that loan were in addition to the ordinary annual loan of two to three crores which is made. I fancy if the Government asked for a very big loan of five to six million pounds it would not get all that.

8515. What do you think they could safely do—take another one or two crores?—I suggest here four million, that is roughly six crores.

8516. Four million pounds a year?—No, I say here "occasionally." I do not think the market could take it every year.

8517. In that case it would be very little more than has been done of late, would it not?—No, you are borrowing about two million pounds annually.

8518. Four million pounds occasionally would not come to much more than two million pounds annually, would it?—No, but that is in addition to the ordinary borrowing. If you are having the two million pounds annual loan, I think an occasional loan of four million pounds might be tried.

8519. Can you, from your banking experience, tell me where these loans are held? I suppose they are taken mainly in the first instance by the banks?—Yes, the banks, business houses, and native states.

8520. Are they beginning to be held by natives to any great extent?—Not as much as they might. Mr. Gillan is probably aware of certain correspondence which we have had with the Government about difficulties in endorsement. The native mind cannot understand it all. They are very exact in Government offices where the funds are administered, the Bank of Bengal and elsewhere, as to the chain of endorsement,

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[Continued.]

and that very often raises objections on the part of illiterate people. They often have difficulty in trying to get these endorsements put right.

8521. Will you explain to us exactly what you mean by that phrase "the chain of endorsement"?—There are cages on the back of the paper. The paper might originally have been taken by the Bank of Bengal, and it is paid over to a lady, Mussamat Debi, and Mussamat Debi proceeds to sign here, and they say that the signature is not right—she is illiterate, or something of the sort. Even if she can sign there is probably something wrong; they want it letter for letter; or the paper has not been presented to the Public Debt Office for several years, and it has got to be.

8522. I understand that the certificate passes from hand to hand?—It passes from hand to hand by delivery.

8523. And does not require to come back to the issuing bank or the managing bank at each transfer?—No.

8524. If these difficulties could be diminished do you think that there would be a much larger market among natives for Indian securities?—I think it would help considerably. Sir James Meston, when Financial Secretary, did a good deal to remove these difficulties, but they are really very perplexing difficulties, even as regards joint stock companies and railways, because Government notes are given to railways as securities for tenders; they may be paid to the Central India Railway and then the Central India Railway may hand that paper on to someone, and finally when it comes to the Public Debt Office for renewal they say "So-and-so's signature is not in order; the agent of the railway is not authorised." It is the same way with banks and joint stock companies, not so much in the case of banks, but the Chamber which I represent took up several cases I know where Government disputed the right of an attorney to sign.

8525. I think you say there has been correspondence between your Chamber or Bank and the Government of India on the subject?—Yes, these were brought to the notice of Sir James Meston and he gave orders to have the things considered.

8526. As regards the exchange, I understand you to hold quite definitely the view that the fixing of the rupee at 1s. 4d. has been of benefit to India generally?—I think there can be no doubt about it.

8527. In your opinion the most important task in relation to this matter of the Government of India is to maintain the exchange at that figure?—That is so.

8528. You have been unable to form anything like exact views as to what has happened to the large quantity of gold which has gone into India in recent years?—Beyond that a good deal has been melted down and it has gone into ornaments.

8529. I think you suggest in your memorandum that a good deal of it is melted down for trade purposes?—For jewellers' purposes, yes. Mr. Gillan suggests that, and I think I can bear him out from my experience.

8530. You say that the circulation is increasing, but the increase is more marked in the Punjab than elsewhere?—Yes.

8531. The increased circulation of gold is very local in India, is it not?—It is distinctly localised, I should say.

8532. There are particular districts where gold is desired and others where it is not needed or not required by the public?—That is so.

8533. What do you think is the business of Government in relation to the currency?—To give the people what they want.

8534. But in so far as they can favour one kind of currency rather than another, which kind would you prefer to see in circulation?—Of course, token coin is the cheaper from the Government point of view in circulation, but there is one thing to be remembered, that as regards such as is taken off for saving, it is certainly much better that the poor man should save in gold than in silver.

8535. If he melts it down?—If he melts it down.

8536. Does that apply if he keeps it as coined rupees?—It is all the same if he has still got it in sovereigns, or has got it in the form of ornaments, so long as he has the gold.

8537. But have sovereigns any advantage over rupees, except that they are less bulky if the rupees were kept in the form of rupees?—I do not quite follow.

8538. I quite understand that if the poor man melts down rupees, which are a token coin, and then in time of stress brings back the bullion he would get a less sum than he had put away?—Exactly.

8539. But if he keeps it in the form of rupees he will get back the same sum?—Yes, he will get back the same sum if he keeps his savings in rupees, exactly.

8540. When he melts it down for jewellery, of course he loses if he melts rupees and does not lose if he melts gold?—Quite so.

8541. Now I go back to my question: Suppose you were an autocrat administering the Government of India and you saw that you could encourage the circulation of gold at the expense of rupees or notes, or the circulation of notes in preference to gold, what course would you take?—If I wanted to make money for the Government I should try to give them as many rupees as possible. If I wanted rightly to administer in the interests of the people of India I should try to give them as much gold as possible.

8542. It is the second supposition that I wanted to go on. Why in the interests of India would you give them as much gold as possible?—Because the man who has the gold there—the man who has saved the gold—has got it whenever he likes.

8543. Is not that true if he has got it in notes?—If he has got it in notes, yes, but I do not think he would keep it in notes.

8544. As long as the Government is solvent?—Exactly.

8545. Is it not true if he has got in rupees?—It is true if he has it in rupees, certainly.

8546. Is it not a fact that in that respect gold is only better than silver if the gold and the silver are both melted?—Yes, if the gold and the silver are both melted.

8547. Have you any other reason for thinking that it is in the general interests of the people of India to encourage the circulation of gold?—It is a much easier coin from the point of view of the small man. He can keep one sovereign much more easily than 15 rupees. If you take it for purposes of remittance it is more easily transported.

8548. In both those respects notes would be as advantageous as, or more advantageous than, gold?—They would be if you could get the people to keep notes.

8549. When you come to think it out, would there be any objection from the point of view of the people of India to encouraging the use of notes rather than gold?—I do not see that it is really the duty of the Government to force them one way or the other. If they can have notes or rupees or gold, let them take what they want.

8550. I quite see that if a person has a clear idea of what he wants it would be desirable that the Government should give it to him, but when he is indifferent ought the Government also to be indifferent, or ought it then to tender him one rather than the other?—I do not quite follow that.

8551. If the payee is indifferent as to whether he receives notes or gold ought the Government to be indifferent too, and ought the Government cashier to wait until he has made up his mind which he will have, or should the Government cashier, he being indifferent, give him the one or the other?—Give him the one or the other.

8552. But which?—Offer him notes or offer him silver. If you offer him notes he can immediately say "I want rupees for them" or "I want gold for them." It is only a question of reconverting it.

8553. If, therefore, you were in that position and the man were indifferent, you would give notes rather than gold?—I would give him notes rather than gold.

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8554. Of the gold which is given out a certain part remains in circulation, or may come back into circulation, but a great deal disappears from the realm of currency altogether?—Yes.

8555. You said just now that it was most important in your opinion that the fixity of exchange should be maintained. Do you think that gold which is put into circulation is of much use for maintaining exchange in a crisis?—I doubt it.

8556. You do not think that it is probable that much of it would come out in a crisis to support exchange?—I should think not.

8557. If that is so, is there not a real reason in the interests of the people of India, and not merely a money-making reason, why the Government of India should discourage the circulation of gold, and increase the circulation of notes or rupees?—No, the Government can have their own reserves of gold, and centralise their reserves.

8558. How do they get those reserves? Are not those reserves dependent on the amount of notes, and the amount of rupees which they put into circulation?—Yes, that is so.

8559. If for notes or rupees you substitute gold in circulation, you automatically stop the accumulations of the reserve of gold?—The reserve of gold must suffer in consequence if you are forcing gold out, but I am not arguing that.

8560. I think you put it to me that the Government should remain neutral in this manner?—Yes.

8561. I am suggesting to you that in the interests, not alone of the Government, but of the people of India, the maintenance of exchange being their first interest in your opinion, the Government should not be neutral, but that it should encourage the circulation of notes wherever it can, rather than the circulation of gold?—Yes.

8562. You see, perhaps, the line of argument indicated in my questions?—Yes, I see it.

8563. On the whole do you agree with me, or do you differ?—I should say that the balance lies in favour of developing the note circulation.

8564. And keeping gold in reserve rather than putting it into circulation?—Exactly. I am not urging that the Government should force gold, but that it should be optional, and if a man expresses a preference for gold the Government should endeavour to meet it.

8565. In the light of those considerations, what is your reason for favouring the opening of a gold mint?—The reasons are very fully stated by the Government of India, and on the whole I think I agree with them.

8566. Will you just give them to me?—The main thing was, of course, that there might be gold which is absorbed now, or is hidden now, but that might be converted. One never knows when that occasion might arise. It would be there for that purpose; and there are times when it might be more expedient to import bullion and have it coined in India.

8567. What would those times be? What are the conditions which you contemplate as existing to make it more expedient for the Government of India to import bullion and coin it in their own Mint than to take sovereigns from London or Australia?—From Australia?

8568. From wherever they can get sovereigns cheapest?—I do not know that I could suggest the conditions at the moment, but they might arise.

8569. Put the case of some crisis forcing gold—bullion—out of hoards or out of savings: I suppose what you have in your mind is a famine which brings pressure on the individual and forces him to bring out his savings to live upon?—Yes.

8570. That would be a small man with a small amount of bullion, I suppose?—Yes.

8571. The total might be large, but in each individual case it would be small?—Yes.

8572. An individual could not go direct to the Mint to get his own little store coined; he would sell it as bullion?—Yes.

8573. And it might pass perhaps through two or three hands before it reached the Mint?—Yes.

8574. Do you think, under those circumstances, there would be any real advantage to anybody in being able to take that bullion to a Mint in Bombay, rather than in sending it home to be coined?—There probably would be a balance of advantage in getting it done there instead of sending it home to be coined.

8575. Where would the sovereigns be wanted when they had been got? The individual who had brought out his little hoard would want rupees, would he not?—The sovereigns would remain with the Government.

8576. When the bullion had been taken to the Mint and coined into sovereigns, what do you suppose the man who got the sovereigns would do with them; take them to the Government I think you said just now?—Yes.

8577. They would get into the Government Treasuries?—Yes.

8578. And from the Government Treasuries what would be the next step? Would they stop there until they were wanted for the support of exchange?—Yes, until they were wanted for the support of exchange.

8579. And when they were wanted for the support of exchange where would they be wanted?—They would have to go to London.

8580. Would it not be just as well if the bullion had gone there at once instead of passing through Bombay?—Yes.

8581. Do you think there is any real advantage in the opening of a Mint to gold in Bombay?—I do not say that it is going to do everything, but there is an element in its favour.

8582. Rather of sentiment, perhaps, than of very concrete advantage?—There is a good deal of sentiment in it, yes. I say that "on the whole" I favour it.

8583. As regards the gold reserve, I think your view is that no limit should be put to its growth at present?—No.

8584. You also hold that the amount of actual gold in it is insufficient at the present time?—Yes.

8585. And the proportion is too low?—Yes.

8586. You do not desire to fix any definite limit to the gold portion of it any more than to the whole, do you?—I suggest that the reserve should be held half in gold or rupees, the bulk to be held in London in gold only, while gold or rupees may be held in the Indian branch as circumstances warrant.

8587. Excepting that the actual gold should be half of the whole you would not care to put any limit?—No.

8588. I notice also that in connexion with the Paper Currency Reserve you say that in your opinion if the note issue were handed over to a Central Bank it would not command the same confidence as the present Government issue?—I do not think it would.

8589. Does your experience of India lead you to think that the people attach great importance to the Government guarantee behind the notes?—Undoubtedly.

8590. And no institution even of a semi-state character not absolutely under the control of the Government would, in your opinion, carry the same weight?—I do not think it would be as good as the direct connexion of the Government now.

8591. In regard to the financial organisation and procedure of the India Office, you suggest that the practice of lending to certain approved banks has a tendency to single out and hall-mark those banks, and you ask whether it would not be possible to widen the range of competition even if it led to rather less interest being received. Are you speaking there from personal knowledge of the institutions in London, or are you rather influenced by your Indian experience?—Well, the same argument would apply in India. It is a case of "a fair field and no favour."

8592. Do you think that the loans to certain banks in London have been of such consequence, having regard to the position of the banks, as to hall-mark them as you say?—No, I think the biggest deposit is under two millions, but I believe there are a good many banks in London who would like to get hold of those deposits, and some in the City feel very sore about it.

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8593. What exactly is your second suggestion as regards deposits and short loans?—If the money is available why should not the Secretary of State notify that he has so much to lend and receive tenders for it, just the same as he does when he is selling his bills, "I have so much to sell in India." That is all it is, because it seems to be a very costly arrangement at present.

8594. You put it forward, not on the ground that the present system leads to the favouring of special firms, but rather that it would be much more economical if it were done in that way?—It would draw a bigger field of borrowers.

8595. Are you aware that the emoluments of the Government broker have been revised since the days when such large sums were paid?—No, I did not know that.

8596. Of course, you are aware that the balances were very abnormal, and that led to abnormal fees?—Exactly.

8597. (*Lord Faber*.) I want to ask very few questions, and perhaps more on banking than anything else. I gather from you that in your opinion if a bank fails in India the banking community generally is hurt by the want of confidence brought about by the failure?—I refer more to the effect it would have on depositors.

8598. They would be timid?—They would.

8599. They would not care to deposit with banks in the same way as they had done before the failure?—Quite so.

8600. Therefore, you will most likely think that if we could prevent a failure it would be right to do so?—Yes.

8601. What should you think of Government inspection of all banks?—I do not think any good bank has any reason to be afraid of that.

8602. As regards the price of money, do you agree that in all comparatively new countries as regards banking and commerce higher rates are usually exacted?—Yes.

8603. With regard to the endorsement of securities, do I understand that those endorsements refer to the endorsement of Government paper?—Yes.

8604. Tell me exactly what Government paper is?—It is Government promissory notes. The Government of India promises to pay So-and-so, and then there are cages on the back for endorsement.

8605. Why is it so necessary to have the endorsement on the back? Is it so that they may have recourse against the holder in a case of failure? It cannot be that, because it is Government paper and, therefore, endorsement is no good as regards Government paper unless it is to point to a theft of the paper?—Yes, of course, it is payable to So-and-so or order; the paper is not bearer paper.

8606. Just so, but when you have the first holder and he endorses it and does not endorse it on to the next holder, you only want the endorsement of the first holder of Government paper, do you not? We will say it is payable, if you please, to Mr. Smith, who is the holder of Government paper to the extent of 1,000*l*. Mr. Smith endorses it, and he then hands it to Mr. Robinson. It is not necessary for Mr. Robinson to endorse it unless it is endorsed over by Mr. Smith to Mr. Robinson?—Yes, but I think the practice is that it has got to be endorsed over.

8607. Is it obligatory to endorse it over?—It is payable to "or order" in the first case.

8608. I know?—I see. The point is whether you can cut out the endorsement by Robinson.

8609. Unless it is endorsed on, obviously; that is the English practice, as you know?—Yes.

8610. Therefore, it seems to me that the endorsement need not cause any bother at all unless it is endorsed on to somebody else?—Of course, the only difficulty would be if the paper remained in my name.

8611. And you have endorsed it, but not endorsed it on?—You mean I have not endorsed it on; I have simply signed my name and sold it to you; you would not endorse it.

8612. No, I should not. Why should I?—How are you going to get the interest unless I sign the interest warrant for you?

8613. I understand now; there are coupons upon it, are there?—No, there are little cages. I was explaining that. On the back of the paper one reads "interest for the half-year ending" so-and-so; "interest for the half-year ending" so-and-so; "interest for the half-year ending" so-and-so; and the cages here are independent of these; these cages are for endorsement.

8614. I understand now, which I did not before. That is a kind of paper with which, of course, we are not familiar in this country. I should say that there are coupons attached; the coupons are on the back, but it is the same thing, except that they must go with the original note in this case?—It is not a coupon.

8615. You cannot cut off the coupon?—It is part of the paper; it is printed on it; but, of course, the Government now have been asking whether it would be possible to issue Government paper payable to bearer. They have taken opinion in India now whether it would be possible to have it in the form of stock, the present notes, and paper payable to bearer.

8616. It would be quite possible to do that, because there is plenty of it to be found in London—not on the Indian Government, but other loans?—I do not know that it has reached further than the stage of enquiry.

8617. As regards the bank reserve, if you had to choose in what form your bank reserve should be, how should you take it, gold or rupees?—Are you referring to Indian banks?

8618. Yes, or any bank?—The cash reserves.

8619. Yes?—I should keep them in any form.

8620. You would as soon keep them in rupees as in gold?—No, I would sooner keep them in notes. They are handier for us.

8621. I suppose you would rather keep them in gold than in rupees?—Not necessarily. We have to believe that the Government of India is all right.

8622. Still I come back to the old question that the gold, from my point of view as a banker, is pleasanter to hold, because it is intrinsically worth more, as you have observed, than the rupee when melted down?—Quite so.

8623. And gold is world's money?—Yes, exactly.

8624. (*Sir Ernest Cable*.) You speak in your memorandum only of the difficulties of a State Bank (see pp. 613-5). Do any advantages occur to you?—I have read the memorandum prepared by Mr. Abrahams, and I am afraid I do not see any advantages now unless there are other advantages which have not been disclosed there.

8625. You were talking about the mushroom banks. Can you tell me where those mushroom banks operate?—All over the country.

8626. Do you not think that a State Bank might supply the place of, and tend to abolish, these mushroom banks?—No, I do not think so, for this reason, that if you had a big State Bank you would not get the deposits out in the same way. There is money in the country to come to good banks, but what we want is the Government to see that those banks are kept in leading-strings for a good long time to come. They will get money which the State Bank or the Presidency Banks would not get, because the Presidency Banks cannot afford to pay the rates, or they do not pay the rates, that the smaller Joint Stock Banks would pay.

8627. You think the depositors throughout the country demand higher interest?—They want a bigger rate. I am not aware what Sir James Begbie, or the Bank of Bombay, pays on deposits, but I believe it is about 3 per cent.

8628. (*Sir James Begbie*.) It is 3 per cent.?—If you can get another Joint Stock Bank which is willing to pay $4\frac{1}{2}$ per cent., and if that bank is properly regulated by Government, you will get money to come to that bank. The bank has a certain duty to perform, and at 3 per cent. they are not just exactly inviting all the money in the country to come to them. It is

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the same way at home here; so much money has had to go elsewhere.

8629. (*Sir Ernest Cable.*) In reply to the Chairman you mentioned that it would be an advantage for the use of currency notes to be increased?—Yes.

8630. Do you not think that could be better brought about by a State Bank than by Government?—If there is one thing that the Government have done well, they have managed their currency well.

8631. Nobody denies that, but the question is whether a State Bank would not be able to push it more successfully?—No, I do not think so.

8632. (*Mr. Gladstone.*) Let me ask one or two questions as to the nature of the security to be deposited with Government against Government loans. You have referred to the trouble and risks in regard to Government paper passing by endorsement?—Yes.

8633. Do you not think that an issue of short term bearer bonds, known in this country as floaters, will get rid of this difficulty and form a very convenient security?—As a matter of fact, that is the view I took when the Government asked opinion upon that matter.

8634. The creation of such securities by Government from time to time in moderate amounts might be done without inconvenience?—I think it could.

8635. And if the amount repayable at any one time was strictly limited there could not be much objection from the Government point of view?—I do not quite follow the question.

8636. If the amount repayable by the Government at any one time on short term bonds—because they would have to be short term bonds?—Yes.

8637. It would form a good banker's security, and it might attract money not now invested in Government loans?—Yes.

8638. It would be a safe security for Government to hold against any loans they might make, reducing to a minimum any risk that they have to carry, or any adverse effect on Government loans in general should it ever prove necessary to realise such security?—I think that is quite true.

8639. (*Mr. Keynes.*) You said in reply to a question that the bank rate sometimes differs in different Presidencies?—Yes.

8640. I suppose that is because money does not flow very readily from one part of India to another?—No, that is so.

8641. Do you hold that that is an advantage?—That it should not flow?

8642. Yes?—It is probably a disadvantage.

8643. I think you called attention to these different rates as showing that there was no need for a Central Bank. I suggest to you it rather shows the opposite?—No, I mentioned that as showing that the conditions in each of these Presidencies are entirely different, that the rates, among other things, are different. I think if you read my note you will see I say that each has "a distinctiveness of its own, and the rate in each is often different" (see page 613, paragraph 8).

8644. And the rate is different because money cannot readily flow from one to another?—That probably is so, yes.

8645. If there were a Central Bank which directed the flow of currency to the different Presidencies according to how much was wanted in each, there would be less difference between the bank rates than there is now?—Yes, but I do not know that the Central Bank could achieve that.

8646. If it attempted at all to do that it would be an advantage?—It would be a very good thing, but you have the other thing there; if the Government are going to lend money, as I suggest in this note here, out of their surplus, it would do the same thing.

8647. How do you mean? I do not follow?—If the Government are going to lend money out of their currency reserves and tide over the seasonal difficulties you will have brought the rate down.

8648. But does that affect the difference between the rates in the different places?—It would, because you would probably have Madras as the highest, and it would probably be borrowing more. If there is a difference, if it is 4, 5, and 6 in one place, and if

it is tighter in Madras than it is in Bengal, then Madras will be wanting more from the Government, which would bring it down to 4.

8649. That is assuming that Madras would have as much security of the right kind as would be wanted for the loan?—Yes.

8650. You say that there are local differences to which the banks have adapted themselves. What are the local differences of which you are speaking?—The differences in trade and so on—financing different industries.

8651. Do you mean differences as to what trades and what individuals ought in different parts of the country to have credit?—I do not quite follow that question.

8652. The industries in the United Provinces are different from the industries in Burma?—Yes, quite so.

8653. So are the people?—Yes.

8654. But that you say does not cause any difficulty to the Bank of Bengal?—No.

8655. What are the sort of differences of which you are thinking which would cause the difficulty?—The differences in the nature of the business?

8656. Yes?—Bombay has entirely different business from Calcutta, for instance.

8657. But so has the United Provinces from Burma?—Yes.

8658. What is the difference which is relevant in the one case and not relevant in the other?—There are differences in trades, and so on, and different industries and exports.

8659. But the difference of industries is no interference as between Burma and the United Provinces, but is an interference as between Calcutta and Burma?—Yes, it might be.

8660. Why is that?—You are only enlarging the scale, are you not; you are only enlarging the area.

8661. Are not these differences of a kind which would inevitably be left wholly to a local board, and could not conceivably be the business of a central board?—It might be arranged to leave them to the local board.

8662. Are there any differences which could not be left to the local boards?—No, probably not. It would all depend on what latitude was given to the local board.

8663. With regard to the mushroom banks, from what classes are they drawing their deposits, do you think?—From the artisan, the babu, the pleader and the cultivator.

8664. Is that a class which, apart from mushroom banks, does not bank at all?—I do not think they bank at all. Of course, the pleader, as an educated man, did bank previously, but they get better rates here, and they get a position of importance on the board, and so on.

8665. So to a certain extent you think the mushroom banks by their high rates attract money which previously was going to other banks?—No, not necessarily. Yes, to a certain extent to other banks, and they have probably tapped new sources altogether.

8666. How are these banks using their money?—I refer to them in the appendix to my memorandum (page 619, paragraph 6) as investing in all sorts of things, such as coach-building. They will take a part of their money and erect a soap factory, or a coach-building business for repairing carriages, and so on, and, of course, they finance a great deal in trade.

8667. Do they on the whole put their money into permanent investments, or do they keep it for what I may call real banking purposes?—I should think they rather tie it up. In fact, they become traders with the money which is given to them as bankers.

8668. What sort of rate do they commonly pay on deposits?—Five per cent., and for two years probably six per cent. It is five per cent. for one year and probably six per cent. for two years, and so on like that at varying rates.

8669. I think in answer to Sir Ernest Cable you said that the right solution was not to introduce a Central Bank but to have these banks under Government inspection?—To let them go on, and not to have them

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under Government inspection but to legislate for them and to provide that they must do certain things: they must comply with certain conditions before they are floated, and after they are floated they must have a certain percentage of cash to their deposits, and so on, and they must have a certain percentage of capital to their deposits.

8670. If they were properly regulated could they afford, do you think, to pay these high rates of interest?—I see no reason why they should not. They are borrowing probably in districts which are not advanced, and if they borrow at 5 and lend at 9 per cent. they are getting a profit margin of 4 per cent.; and their expenses are very low; they have no European establishments.

8671. If there were different branches of the central bank in these more remote places, would they not also be able to afford to pay more than the 3 per cent. now paid by the branches of the Presidency Banks?—Then they would have to alter their present practice, because if the central bank is composed of the Presidency Banks a uniform rate obtains at all their branches, and they would only pay the same rate at all their branches.

8672. Is that a good plan, do you think?—No, I expect it would be a very good thing to let other institutions than a big institution open banks.

8673. Is it your opinion that a higher rate could well be paid in up-country districts than what could be paid in Presidency towns?—Do you mean a higher rate paid by borrowers?

8674. A higher rate paid to depositors?—Yes, there is a higher rate paid up-country than there is in the Presidency towns.

8675. And it might fairly be paid?—Yes.

8676. So that if Presidency Banks are thinking mainly of their Presidency town trade in charging a uniform rate which is suitable to them, that tends rather to hinder their development up country?—If they borrowed at one rate at all their branches and lent at a uniform rate?

8677. No, that was not my question. If the Presidency Banks are thinking chiefly of their Presidency town customers and charge a rate suitable to them and then impose that rate on their branches also, you think that hinders the development of their branches?—I have not quite followed the question.

8678. (Mr. Gillingham.) What Mr. Keynes means, I think, is that they offer no more for deposits up country than they offer in the Presidency towns?—Is that your point?

8679. (Mr. Keynes.) Yes?—No, they do not offer any more, because if they offered more in Cawnpore, for instance, than they offered in Calcutta, people in Calcutta would send up to Cawnpore to reap the higher rate.

8680. But if the money could only be taken out at the branch at which it was deposited, would that be the case?—Quite. You could get currency notes and send them back again to Calcutta, and you could get your money back there, or you could go to the Currency Offices and get a transfer for one-sixteenth.

8681. Suppose that one of the more substantial of the joint stock banks were in difficulties, to whom would it look for assistance?—The Presidency Bank in the first place.

8682. Is there any important reserve in cash outside the Presidency Banks?—Do you mean banking reserves?

8683. Yes, banking reserves?—Do you mean have the other banks got important reserves?

8684. Have they reserves in cash apart from their balances at the Presidency Banks?—You mean have these other banks balances in the Presidency Banks?

8685. No, have the other banks got reserves in cash apart from their balances at the Presidency Banks?—Yes.

8686. Important reserves?—Yes, considerable.

8687. I do not want anything precise, but when banks say that they have cash in hand and at the Presidency Bank amounting to so much, would you think they had as much cash in hand as they had at the Presidency Bank?—A great deal more. Take the case of my own bank. We bank our surplus money

with the Bank of Bengal, and that is a mere bagatelle compared with what we have in our own safes. We could not possibly leave all the money lying with them.

8688. What is your published proportion?—It is, I think, shown only as "Cash in hand and at bankers."

8689. About how much is it—what proportion of the balance?—I could not tell you; I am not in the head office. Do you mean of the proportion of the bank's cash balance how much is kept at the Presidency Bank, and how much is in our safes?

8690. No, I did not mean to ask you that; I mean merely what proportion of the deposits, the cash in hand and the money at the Presidency Bank added together make?—I do not think I could tell you straight off just now.

8691. Have you not any approximate figure?

8692. (Lord Faber.) It is 20 to 25 per cent., is it not?—It varies in June and it varies in December. When the demand is greater the percentage is not so high. In June, of course, it is very large and the money is lying idle, but the figures have escaped my memory at the moment.

8693. (Mr. Keynes.) You suggested that perhaps a loan of ten crores would be wanted to keep the bank rate down?—I do not bind myself to that figure, you understand.

8694. No, but if you take that figure, do you think the Indian banks could put up security with a good margin to that amount?—The whole of the Indian banks?

8695. Yes?—Probably.

8696. Even if they were limited to Government Paper and a few other Port Trust securities, and so on?—Yes.

8697. You think they could?—I have not the figures now, and it is rather difficult. I cannot remember just exactly how much the Presidency and other banks hold in these securities. It is difficult; it has been off my mind for some time now.

8698. I do not quite understand the mechanism by which this money should be lent to banks. Are they to tender for it?—No, the probable course would be that they would write in and say to Government: "Could the Government give them so much money?"

8699. You say in your memorandum: "Any bank depositing sufficient Government securities to be accommodated; the loans not to exceed three months and to carry interest at a rate to be fixed by Government from time to time, but approximately five per cent." (page 614, paragraph 17)?—Yes.

8700. Do you mean that the Government should notify that their rate at the moment is, say, 5 per cent. and then lend to any extent which is asked of them at that rate?—No, I take it the procedure would be that the bank would probably want ten lakhs and would write to ask the Government if they could get the money and on what terms; and the Comptroller would say on what terms he was prepared to lend. If the money were going out quicker than the Comptroller cared for, of course, he would have to put up his rate, but it would move more or less in sympathy with the bank rate.

8701. It would be within the discretion of some Government official to settle the rate as he saw the loans going in or coming out?—I think so. I think the Comptroller might fairly be trusted to do that.

8702. Doing very much what a bank does?—Yes, practically.

8703. You are proposing something which would be very far from rule of thumb and would involve some Government official's exercising a discretion of a kind usually exercised by banking officials?—Yes, to that extent it would. If the Government said that they were going to lend at 5 per cent. and found that the rate was going higher, I think the Comptroller would be quite justified in saying "we want 6 per cent. now; you are getting a bigger profit margin and we want to share it." I do not see that there is any objection to the Comptroller doing that.

8704. In the course of your memorandum you say that borrowers for all the year round would pay 6 per cent. We have had evidence that some borrowers

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pay a good deal less than 6 per cent. I suppose they have been an exceptional class of borrowers?—Yes, very good borrowers. I know from my own experience as a matter of fact firms who do borrow at less than 6 per cent. from the Presidency Banks.

8705. But you say the ordinary man in a fair way of business would probably have to pay 6 per cent. for all the year round loans?—Yes, if he is a good borrower.

8706. What sort of security would he give against that?—He might have shares, or it might be stocks.

8707. Something of the kind which the Presidency Banks would not take?—Oh dear me, no: Presidency Banks advance on anything if they can get two names. They can drive a carriage and pair through their limitations. They can lend on landed property so long as they get two names and the deposit of the titles as security.

8708. We are told in evidence that the rule which prevents Presidency Banks from lending upon stocks and shares is an inconvenient one?—It is about the one thing that they do not do, but if I wanted to borrow on stocks and shares all I have to do is to overdraw my account, and I have the stocks and shares and I come to you and say: "Will you sign this promissory note for the Bank and sign along with me?", and you get a small commission for doing it, and I get the money all right and they get the shares.

8709. They do actually take stocks and shares as collateral?—Yes.

8710. If they get the two names?—If they have the two names. They may put the shares in safe custody; I do not know; but I know cases where they have the shares.

8711. You think, therefore, that these restrictions under which they work are of no practical importance?—No, I think they can make such very wide use of them, but I do not suppose the Central State Bank would be allowed to do things of this sort. They could not possibly.

8712. Do you think the restrictions are of a wise kind and ought to be maintained?—The present restrictions?

8713. Yes?—As I say, they can make a pretty wide use of them, but they have come to no harm so far.

8714. Would it be a good thing or a bad thing if they were strictly enforced? You are suggesting that in the case of the Central Bank they would have to be strictly enforced?—It seems to me, according to the strict letter of the law, the Presidency Banks could make these advances so long as they got the two names.

8715. If it were to be strengthened up in some way so that they could not make loans on stocks and shares would that be a good thing?—I would not say so. Why should they be debarred from it if they have two names?

8716. Is there any reason why the Central Bank should be debarred from it?—The Central Bank, if it is going to be a Government Bank, I fancy would have to be kept much more tightly in hand.

8717. Why?—Because under the present conditions it is possible to borrow on houses and lands and everything else. So long as you get two names you can go to the Presidency Banks and get the loan.

8718. My point is this, that if the method followed by the Presidency Banks is perfectly safe there is no reason—?—It is perfectly safe so far.

8719. Do you think there is any element of danger?—There is always danger in banking; you are never free from it. It does not matter what you touch. It might be right to-day and bad next year.

8720. Indian banking has had a very prosperous time for ten years or more. In what position do you think they will find themselves to meet the next severe banking crisis?—It depends when the next severe banking crisis comes, and in what form.

8721. If there were to be some serious failures and at the same time a good deal of stringency?—Yes, a good many would come down.

8722. Is it your opinion that the Presidency Banks are strong enough to support the whole fabric of Indian banking on an occasion of that kind?—I suppose I am

at liberty to say. Am I to express opinions as to the solvency of Presidency Banks?

8723. I am not asking as to their solvency; I am asking as to their capacity to stand a strain in which they had to support not only their own liabilities but also a large part of other banking liabilities?—They might to a limited extent take on other banks and help other banks through, but of course we know that in one case they failed themselves, did they not?

8724. What is in my mind is this, that it may be the case that with the great growth of deposit banking during the past 10 or 12 years, and the growth of dependence on Presidency Banks, while they are very well able to look after themselves, they would not, perhaps, be able to support all the banking interests of the country?—But why the dependence on Presidency Banks? You said just now: With the growth of joint stock banks and their dependence on Presidency Banks.

8725. You told me earlier in your evidence that if they were to get into difficulties they would try to borrow from Presidency Banks?—Yes, that is assuming difficulties. They would naturally look first of all to the Presidency Banks.

8726. Ten years ago there were no banks, or possibly about half a dozen, who were in a position to get into difficulties. They did not exist?—Yes.

8727. But that is no longer the case?—No, there are a great many now.

8728. Does not that make the whole situation more complicated and serious?—It does, but the remedy is for the Government to lay down restrictions, and say, "You shall only conduct your business in this manner." If the Government will only do that, you will get a form of banking which is going to do a lot of good. It will reach the places that Europeans do not go to, and you are going to get out the deposits. We want the Government to come forward and say: "You have to comply with certain restrictions," and I consider that these banks will fulfil a very useful rôle, provided they are put into leading strings.

8729. But even if they conduct their business quite moderately and on cautious lines, the mere growth of smaller banks necessarily having small reserves, complicates the banking position, does it not?—Yes, to this extent, that it exposes you to greater liability to failures.

8730. No one would expect a small bank to keep such a very large liquid reserve that they could get through a grave crisis unaided?—No.

8731. Not in India?—No.

8732. So that if these banks grow there will necessarily be a great growth of institutions which would be in need of some outside assistance at a grave crisis, and that is a new thing?—Yes, new to the extent that there are more of them, and of a less solid type than those which have gone before.

8733. Do you think that if the reserves of the three Presidency Banks were amalgamated, and you had a stronger central institution, that might prove valuable at a time of crisis of this kind?—Why do you want to amalgamate them if they are there now? It makes no difference if you put the three into one.

8734. Is it not your experience as a banker that three reserves in one are of more value than if they are separate?—It would be bigger.

8735. Would it not be more valuable?—If you put three reserves together, there are always the corresponding three liabilities put together.

8736. But is it not your experience that if three banks amalgamate, from the point of view of their reserves they are stronger than if you have the three banks separate?—Yes, that is so.

8737. Would not that apply to the Presidency Banks?—If they were united.

8738. Yes?—Yes, but do you want to unite them for the sake of meeting this danger?

8739. It is one of the objects which I have in view. Do you think there is anything in it?—The reserves would be stronger if they were administered by one, undoubtedly.

8740. And that is an important and relevant consideration, because the banking position in India is

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becoming more difficult than it used to be through the growth of smaller institutions?—Yes. I take it, however, in the event of difficulty, banks would repair to the Presidency Bank in their own sphere, so to speak; if they were in Bombay they would go to the Presidency Bank in Bombay or in Bengal to Calcutta, and they would be tidied over in that way.

8741. (*Chairman.*) That is, provided that the Presidency Banks thought that the institution was one which ought to be helped?—Yes, undoubtedly.

8742. You would not assume, or wish other people to assume, that whenever one of these minor institutions got into distress the Presidency Bank would as a matter of course carry it over?—It could not do so. In the case of the Bank of Burma the other day, the Bank of Bengal refused to step in and help because it was not a genuine case.

8743. (*Mr. Keynes.*) So that if there is a crisis in one Presidency at present, only the funds in that Presidency are freely available?—They can be transferred.

8744. But there is difficulty in that?—No.

8745. We have had evidence that when there was trouble in Madras not many years ago Madras had to depend to a very great extent upon its own resources?—That may, of course, have been due to the fact that the treasuries down there were more or less empty at that particular time.

8746. Would not that kind of difficulty be avoided by a central institution which had an eye to the whole country?—No, in the case which you have just mentioned, Madras was probably empty, and the only way you could get over that was by sending down hard coin; is not that so?

8747. Quite so?—Even if you had a big Central Bank, and even now that Government have simplified matters considerably by giving big transfers from treasuries to other treasuries, there is still an enormous amount of money carted about the country actually in hard cash.

8748. It would be to the interest of the central institution to send cash to any branch which was in trouble, or to any part of the country where at the moment it was wanted?—Yes, it could still be done now.

8749. It is nobody's business to do it now?—I am afraid I do not understand you. Nobody is going to offer money to a small bank in difficulties until it asks for it, or unless it deserves it.

8750. I am suggesting that it is not the business of the Government or of the Bank of Bengal to remit surplus funds to Madras because the Bank of Madras is rather short of funds?—No, quite so.

8751. If they were all one central institution it would be their business?—It would be the business of the central institution. It would find that it was getting better rates in Madras probably if there was a shortage there, and it would send money down there. If it sent money down there it would send the rate up in Bengal or Bombay probably.

8752. That would be an advantage, would it not?—I do not think Bengal would accord you thanks for it, or Bombay either. If you send money away to one place where there is a bigger demand, it would simply tend to put up rates all round elsewhere.

8753. But from the point of view of the country as a whole it would be plainly an advantage, would it not?—I do not see that there is any enormous advantage if the difference is only one per cent.

8754. I did not imagine that case, I imagined the case of a real temporary difficulty. If there were a central institution it would be rather easier than it is now to relieve that temporary difficulty?—I do not think there is very much to be made out of that. It seems to me if the money is not in the Treasury at Madras to assist in a case of that sort, it would have to go in hard coin, and whether it is sent by the Calcutta bank or by individuals or an ordinary joint stock bank, is immaterial so long as it gets there.

8755. But at present if it is in Calcutta it is only available in that Presidency, it is not available in Madras?—They may have a transfer of it.

8756. But in order to get that transfer the Bank of Madras has to raise funds in Calcutta?—Yes.

8757. Which is plainly more difficult for it to do at a time of crisis than if the authority of Calcutta is also the authority of Bengal and Madras?—But do you not suppose if the Bank of Madras were pushed they could not send up to Bengal or Bombay and offer to borrow there and get the money sent down in some way?

8758. There is no doubt whatever; they do that now. But I am assuming this case, that while that would be done to a certain extent there is some difficulty in it?—There might be, but at the same time it is perfectly open if rates are very high in Madras for Madras to send to Bombay or Bengal to get the money sent down. I do not think the Central Bank would make it any easier.

8759. I do not think that is my point, but I will not pursue it. I have only one other point. If the notes preserve the same form and the same appearance and have the same guarantee, would the fact that they were managed by a Central Bank militate against them?—These are things that are very difficult to express. You have got to be in India to realise these things. Every little change means such a great deal.

8760. I am not expressing an opinion, I am asking a question?—Exactly, but I am really giving you the answer in a different way. It would, I think. Any change of that sort would be bound to affect the note circulation for many years.

8761. If the notes preserved the same appearance, and if the Government did not withdraw their guarantee, you think the fact that they are issued by a Central Bank would make people distrust them?—I think it would, the same as when the Government tried to push sovereigns into circulation they went to a discount. It was something new. When they tried to circulate sovereigns it was something new and people said "No, we will not have it."

8762. But there will be nothing new in the appearance of these notes or in the security. You think that the ordinary person who would be ignorant enough to be disturbed, would have knowledge enough about the existence of the central bank?—I think that the chance is that it would create a disturbance in circulation.

8763. You do seriously say that?—I think it would in so far as it would be novel. It is a thing that would be got over in time, there is no doubt. It was only a few years ago when the Government of India printed the Government promissory notes on different paper, and made it very dark blue, and there was all sorts of talk about that.

8764. You would not say that it was more than a temporary difficulty?—No, not more than a temporary difficulty, but there would be difficulty at first, I think. As I tell you, there was the same thing when the Government promissory notes were changed from white and red into mauve. The people wondered what it all meant.

8765. (*Sir Shapurji Broacha.*) Do you think the Presidency Banks are doing their business very efficiently within their spheres of influence?—I think they are.

8766. Money, of course, is very cheap from June onwards?—Yes.

8767. Supposing the Government were to lend some money during the busy season, I think the rates of interest would not rule so high?—No.

8768. The State Bank could not do anything better?—No.

8769. When the Government commences to lend the money?—Quite so.

8770. A State Bank would require State Directors?—Yes.

8771. It would be only making things cumbrous? I think it would.

8772. Instead of the State having one Department of Accounts, it would have to have two Departments of Accounts?—Yes.

8773. I suppose you know that wherever the Government have taken responsibility, the Government Directors have failed to carry it out? Do you know of that in the Bank of Bengal, and in the Bank of Bombay? I will tell you the history of it. The

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Government made a rule not to lend more than one lakh to any person, and they lent a firm 23 lakhs without the Government Directors informing the Government, and the result was, when the Government asked for an explanation, they said it was a serious case, and they were not bound to bring it to the notice of the Government?—A serious case of necessity to make the advance, I suppose?

8774. Yes. So that the Government Directors on a State Bank are no assurance of the Bank going on according to the Statutes?—Apparently these Government Directors did not justify their position, but it does not follow that others would not.

8775. I think India is a very large country for one bank?—Exactly.

8776. For people sitting in Calcutta to regulate the credits of Bombay and other places?—Quite so.

8777. I think there is better accommodation, and a better way of negotiating with a bank, within the sphere of your influence, than by somebody sitting at the end of India?—Yes, you would get into more intimate touch with your banker.

8778. I suppose you know that all the exchange banks keep their balances free in the Presidency Banks at present?—In Bombay.

8779. Yes, they keep their free balances in Presidency Banks without interest?—Yes.

8780. I do not think they would do more with a state bank at present?—No.

8781. They would keep it in the same way?—Yes.

8782. The State Bank would be no advantage in the way of keeping balances over the way the Presidency Bank keeps them now?—Not any more than they are at present.

8783. Now about the endorsement of Government paper. Do you know that the Government have asked for opinions in what way to prepare paper, whether with coupons or whether they should do away with the endorsement or not? They have sent round a circular for the opinions of all Chambers of Commerce and all Stock Exchanges, and so on. Do you know that the Indian Government paper is more a banking security than Consols, even, in one respect, because the interest counts up to the day of sale; therefore you have to count in the interest in considering whether you are making a profit or loss, because interest goes up to the day of delivery?—Yes.

8784. That is not so in Consols, which are like shares; interest is payable on certain dates of the year, and the endorsement is a sort of security, something like a bill endorsed by different people?—To preserve the chain.

8785. And all the people are responsible for anything wrong with the endorsement with all their signatures above one another?—Yes.

8786. So, of course, in India, where the people are illiterate, it is a great safety to widows and other people. First let me ask you this. In India the signature of a widow or a woman ought to be witnessed by two witnesses and a Justice of the Peace?—Yes.

8787. That is the rule?—Yes.

8788. And that is their safety at present. Their husbands could not force their paper out of them, and their sons could not force their paper out of them, because the woman has to sign, or put her mark before two witnesses and one Justice of the Peace. Therefore it would be a very difficult thing for the husband or the son to get it from the woman?—Yes.

8789. I suppose you know that some of the Chambers of Commerce and other people have facilitated that by attaching coupons where the passing of the note must be by endorsement, and the Stock Exchange have given their opinion that the note ought to be prepared with the coupon for six months' interest attached, but passing the possession of the notes must be done by endorsement?—Yes.

8790. That would facilitate interest-taking?—Yes.

8791. You think that the currency office should give whatever is asked, gold or rupees or currency notes, against demand?—Yes, to the extent that they can give the gold.

8792. Then they stop giving gold?—If they have not got it. The Government do not undertake to give them gold, of course.

8793. Do you think it is necessary to undertake to give gold?—No, I do not think it is necessary.

8794. Do you know that in France they do not give gold when asked?—They will not, no; they can keep it back.

8795. Ought the Government to accustom the people to the refusal of payment in gold by currency offices? Otherwise when it is not given they will be alarmed?—I prefer the present arrangement from a banker's point of view. When the Government can give us gold they should give us gold. Of course, if they cannot we quite understand it.

8796. You know that the banks are unable to reach the cultivators of India because they are such a small people, but when the rate of interest is reduced the sentiment for money is easier: when the bank rate is eight or nine per cent. the sentiment becomes rather alarmed, and the people are rather more afraid to lend than they would be at five per cent.; is not that so?—Do you mean depositors?

8797. No, I mean when the bank rate is eight per cent. the middlemen who are lending outside are generally more alarmed than when the rate is four per cent.?—Yes.

8798. When the rate is easier the middlemen would be better able to afford to lend money to the cultivator than when the rate is high?—Yes.

8799. So the cultivator does benefit to that extent? He easily gets his money from the middleman?—Yes, I think there is a benefit in that respect.

8800. (Sir James Begbie.) I understood you to say that the bank rate of Bengal is usually 1 per cent. less than the Bombay rate?—Not always. I mentioned the case that it sometimes varied, but only sometimes.

8801. I think the usual position is that in the late autumn the Bombay rate is below the Bengal rate, and then in the spring the Bengal rate falls below the Bombay rate; is not that the usual thing?—That probably is about it, yes.

8802. With regard to the State Bank you say that the size of India is against the efficient working of a State Bank. Do you place much importance on that objection?—Not a tremendous amount, but I do think it is an objection.

8803. There are several banks which have a chain of branches all round the globe, and they are to all appearance efficiently working, are they not?—You refer to exchange banks, and so on?

8804. Exchange banks and foreign banks?—Yes.

8805. One question with regard to Council Bills. You approve, I think, of the existing Council Bill system, including, I suppose, sales in excess of sales to meet the home charges; that is in Part IV. of your memorandum?—Yes, I think that is what I stated (see page 615, paragraph 21).

8806. I understand from your note that you take the purely trade point of view that the bills provide money in India?—Yes.

8807. Do you think that is the only consideration which should be taken into account?—In selling in excess of the requirements of the Secretary of State?

8808. Yes?—It is one consideration.

8809. It is the only one you put, is it not?—I think it probably is.

8810. You go on to say that these sales "are economical, inasmuch as they obviate the expense of the actual export of gold from London, and its subsequent re-export from India." Do you mean re-export from India for the purchase of silver?—Yes, or the replenishing of the Secretary of State's balances if he were not able to sell any more.

8811. In the case of purchase of silver, against any saving effected as you describe, would you not put the cost of shipping the silver?—Yes.

8812. (Mr. Gillan.) I want to ask you a few questions about this point of the Government lending money in India. I think you said you would require security for the loans?—Yes.

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8813. And that you would take Government paper or Port Trust Stock, or things of that kind?—Yes.

8814. But not commercial paper?—Do you mean bills.

8815. Yes?—I do not think so.

8816. That is what you said, I think?—I did not say bills.

8817. No, you said you would not accept them?—I think not, no.

8818. Paper of that kind might often be really very good security, might it not?—Yes.

8819. The kind of security on which a bank would lend?—Yes.

8820. What I wanted to ask you was, in excluding commercial paper do you do so because as a matter of fact it is Government which is running the business at present, or because you think the security in itself is not good?—There would be no great object in Government taking, and, in fact, it would be very burdensome and very cumbrous if Government were, say, to take hundis, in which the Presidency Banks hold very large sums; I think there is a difficulty in making advances, supposing these were re-discounted and held by Government or not exactly re-discounted, but made over to Government.

8821. I take it that is a difficulty which arises out of the fact that Government is running the business?—Yes. I mentioned these Government securities and debentures as I think they are clean and easily handled.

8822. I am not quite clear how you would conduct the operation of putting the money on the market. I think you said that you would not have a system of tender, but that Government would announce the rate and invite applications, or wait for applications?—I suggested that as far as the India Office were concerned.

8823. And you suggested it for India too, did you not?—I did not suggest it for India.

8824. (*Mr. Keynes.*) I think you suggested that the Government should fix a rate, wait for offers, and then, if the offers were more than it could stand, raise the rate?—That is it.

8825. (*Mr. Gillan.*) That is what I understood. The point I was coming to was this: Supposing the Government has announced a particular rate, we will say 5 per cent., how is it to distribute this money between the different classes? Is it to be merely to the first comer? Suppose Calcutta is the first and puts in an application and asks for all the money the Government happens to have at the time, then is Calcutta to get it?—It would appear so.

8826. In spite of the fact that possibly there may be a greater demand for money in Madras?—In Madras it might be. I have not thought that out as to whether it would be expedient to advertise, and say that the Government were prepared to lend out so much in gradual amounts.

8827. Is not that the difficulty?—It probably would be.

8828. I think you contemplated that some Government official should have the power of varying the rate from time to time?—Yes.

8829. There is another point of the same kind. Suppose you go outside the Presidency Banks and lend to Joint Stock Banks, then some Government official would also from time to time have to determine the status of the applicants, to determine whether they were banks of a kind to whom he could properly make advances, is not that so?—Yes.

8830. Would you give that power also to the Comptroller?—If he had the security—if the bank had the security to offer. It seems to me that is all the Government requires. They would not require to draw the line at all if they had the security.

8831. It is the Comptroller-General who is to do this business?—Yes, or any other official designated by Government.

8832. Without reference to the Finance Department?—He would have to be in touch with the Finance Department.

8833. But do you not get difficulties there? If he has to keep in touch, as he would have to keep in touch, with the commercial world on the one side, and the

Finance Department on the other, and this is business of a kind, I presume, that would have to be done immediately?—Would it not be possible for Government to say beforehand what they are going to have available, or what they could make available to finance trade in the course of the season? The Finance Department could do that.

8834. Estimates of that kind must necessarily vary?—I quite agree. They could be revised from time to time, but they could easily underestimate.

8835. The drift of these questions is this: I want to put to you in a general way that lending money is a difficult kind of business for Government to run. I put it to you, and I ask you whether you agree with it, or do not agree with it?—I do not think the difficulty is very great when you are dealing with security. You have got security. It seems to me that Government officials are doing much more difficult things.

8836. I think you said that if Government lent the money the advantage would go not only to Presidency Banks but it would work its way down to the Joint Stock Banks?—Yes.

8837. But you doubted whether it would reach further. You doubted whether it would reach the cultivator in any case?—Yes, quite so; a modicum might reach him.

8838. I take it, however, that your view is that a high rate of interest is a big drag on trade as a whole?—Yes.

8839. I do not know if you would agree that possibly it would affect the cultivator in this way, that the man who is dealing in produce and is taking money is taking advances in order to enable him to do so, and if he has got to pay very high rates possibly he cannot give the cultivator such a good price for the produce?—Yes.

8840. Is that possible? I am asking your views?—If the middleman is paying a big rate —

8841. Yes, then he is doing his trading under onerous conditions?—That is not such an important factor as if it is impossible or difficult for him to get the actual coin down. I do not think a matter of 2 per cent., the difference between 7 per cent. and 9 per cent., would much affect the price which the cultivator would get.

8842. You do not think so?—No, I do not. He takes interest as an incidental part of his business.

8843. What are the classes generally from whom you would get your deposits? Can you give me any indication?—We get them roughly from everyone in India, with the exception of Government servants, who never seem to be able to save money.

8844. What classes are included?—Indians of all sorts.

8845. Professional men chiefly?—Pleaders—they make numerous deposits—barristers and doctors, &c.

8846. Is there any other class you can mention, apart from the professional classes?—Natives?

8847. Yes?—Yes, there are lots of natives who have deposits.

8848. What are they?—It is difficult to say.

8849. I mean quite generally?—Practically it is from all classes.

8850. On the other hand, to whom do you make loans?—We make very large loans to Indians, and a good deal to Europeans, of course.

8851. Traders?—Yes.

8852. Apart from traders, do you lend to the lesser moneylenders, so to speak? Do the village moneylenders ever come to you for money?—No.

8853. So you would say that there is no channel of communication at present?—No, he is on his own, so to speak.

8854. Can you tell us about this system of cash credits to agriculturist societies? I understand your bank have been going in for that. Have you done much of it?—I started that, as a matter of fact, in connexion with our branch at Cawnpore. The matter was represented to me, and I had a talk with Sir John Hewett on the subject, and we did go in for it, and we did make loans. It is no breach of confidence, as it is stated in their reports, to say that the Unao Town Bank was our principal borrower, but they became so very wealthy that they do not

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require any finance now. They are on their own. We have helped them through. So far as the bank was concerned, I had some difficulty in persuading the management at my head office. They took the view that these might be very serious competitors. My view was that these co-operative banks reach a class of people which it is impossible for us to reach. There are crops there to be financed, and you have only to take a journey through an agricultural tract to see the crops there. These co-operative banks are a power in the land, and we have to recognise that they have come to stay. I said: If you want to help them now, you may as well lend money to them and get a fair rate, as let the money lie idle. Most of them have become independent now, and do not require assistance.

8855. Do you look forward to a development of this kind as making it possible that there may be a connexion, which is at present wanting, between the Central Bank facilities in India and these local rural facilities—getting the money down and up again?—Yes, in so far as even Joint Stock Banks can help them we are helping trade by lowering rates all round, and I know that now some of these banks have invested in Port Trust Debentures, and so on, and when they are pressed they say, “We will borrow on these.” Previous to that I gave them temporary loans on their promissory notes, which are the joint and undivided responsibility of every member of the society. I must say it was an experiment, but we came perfectly well through it.

8856. You think it was good business for the bank?—I had a great deal of sympathy for these co-operative banks, and I induced my bank to go in for it. I understand the Alliance Bank have taken to it also in the United Provinces.

8857. You mentioned the difficulty in connexion with the system of Government paper. The great bulk of the Government paper is held in this endorsed form, is it not?—Yes.

8858. There is an alternative, that is to say, stock certificates?—Yes. It is not very well known, I think.

8859. It is not so popular?—It is not so well known, for one thing. In my note to the Government on the subject I suggested that they should be more widely known, and that an alternative might be stock certificates, paper as it now is, or bearer bonds.

8860. Do you think that bearer bonds would be popular with Indians?—No, I do not think so. With business people it would be quite popular and would save a great deal of trouble.

8861. Apparently, in spite of difficulties, they do prefer these endorsement papers?—Yes.

8862. The Bank of Bengal, as agents of the Government of India, has to accept the responsibility for the accuracy of these endorsements, has it not?—Yes.

8863. So that it is natural that it should satisfy itself, as far as possible, that the endorsements are correct?—Yes.

The witness withdrew.

Mr. M. R. SUNDARA IYER called and examined.

8876. (Chairman.) You are, I think, Secretary of the Economic Association of Madras?—Yes.

8877. You have been good enough to prepare a memorandum for us, and I propose, instead of asking questions on all that you have written, to print that memorandum as part of your evidence (see Appendix No. XXVIII., page 620), and only to supplement it by questions that I ask to-day. I would like to turn at once to the questions which you have not dealt with in your memorandum. Take, first, the question of capital expenditure; what have you to say to that?—All that I would say before this Commission is that it will be impossible to raise enough capital from England as we have been doing hitherto. There are various reasons for that. The first reason is that we cannot raise it so cheaply as we have been doing it hitherto, because $4\frac{1}{2}$ per cent. 5 per cent. and $5\frac{1}{2}$ per cent. seem to be the rates for some of the Colonial securities. The second

8864. Another difficulty which you mentioned was, I think, that the endorsement by an agent of a railway company had not been accepted?—Yes.

8865. If the agent had been legally entitled to sign for the company the bank would have had no option but to accept his endorsement, would they?—You mean at the Public Debt Office?

8866. It must be a legal point, must it not?—I do not quite follow you there.

8867. As I understand, in certain cases, according to the constitution of the company, there are certain officials who can sign endorsements, but they are not legally entitled to bind the company?—I see.

8868. It must be a legal point like that?—Yes. They might have limited power.

8869. I only want to make it plain that the bank could not act in a case of that kind without consideration and legal advice?—Yes, in that case that probably was so. In the case of another mercantile concern, where they disputed the right of an attorney to sign the paper, it was said that under the Articles of Association it was not contemplated that the company should ever hold Government paper, and yet they could invest the money in everything else. The Government said in effect: No, it is not contemplated that you should ever handle Government paper; you are cotton merchants only.

8870. (Lord Faber.) May I just ask one or two questions more? If the Government has a certain amount of money to lend on specified securities would it do for them to ask for tenders from all banks?—I do not think there would be any objection if it were notified.

8871. Then you would get away from the difficulty of favouring one bank as against the other in rate or anything else, would you not?—Yes.

8872. Does the Indian Government lend its money out well now, in your opinion?—No, it is the biggest hoarder in India.

8873. Another question, which is rather a banking question. If the commercial banks lend to these co-operative land banks in India do the commercial banks find they can get paper and security from the co-operative banks?—I think they are becoming that way now. As I said, we did it first of all purely as a trial on these promissory notes which we had endorsed over to us, which the rural bank itself had got from the cultivators' society. We took their endorsements over.

8874. (Chairman.) A witness the other day told us that if you went to the Currency Office in Calcutta and asked for transfers to certain places the Government would give you a transfer at a better rate if you agreed to accept payment in sovereigns than if you took payment in notes or rupees; have you any experience of that kind?—Absolutely none.

8875. You have never known it happen in the case of a transfer between Calcutta and Cawnpore?—No, I have never known it happen in my experience that I can think of.

reason is that we ought to be able to get the money at the time when we want it, because we are so much at the mercy of the seasons; and when there is an additional demand for it, it will be impossible to get enough at a reasonable rate and for a short period. The third reason I would assign is that sterling borrowing always inevitably leads to difficulties, whether they be currency difficulties or other kind of difficulties. In the long run it is not desirable for any country to be permanently the debtor of another country, because the debtor country will always be dictated to.

8878. What is the inference you draw from those premises?—That it is not possible for us to raise as much capital as we want from England.

8879. Do you, therefore, urge that more capital should be raised in India itself?—Yes. I believe that capital can be raised in India itself. I would suggest

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a system of raising capital in India by means of what I may call something like the French rentes, that is by the issue of 5-rupee paper or 1-rupee paper. If loans are raised in that way, either through the post offices or through the co-operative societies, or various other agencies, I think plenty of money will be forthcoming for the needs of the Government of India.

8880. Do you think much more can be raised in India than has been raised in recent years?—I think very much more can be raised.

8881. Do you anticipate that the same classes would be willing to invest larger sums, or that new classes of investors could be found?—I believe new classes of investors could be found, apart from the people who are now sending money to the savings banks, and the large class who invest their money in landed property and in other ways.

8882. If they put their money into savings banks, those are Government savings banks in India, are they not?—Yes.

8883. Government does have the use of that money, does it not?—Yes, to a certain extent.

8884. On the other hand, if it is put into jewellery it lies idle?—Yes, it does.

8885. What alterations do you think would tempt those who now put their money into jewellery or hoard it, to put it into Government securities instead?—Getting some interest, however low it may be.

8886. They might do that now?—No; there would be a difficulty in this respect. A deposit in the savings bank is a matter of some difficulty to the large class of illiterate people. There is the question of going to deposit the money in a savings bank, and then there is the question of the signature, which would be a great hindrance in many cases. People who are not able to write their signatures properly—and among the Indians there are so many illiterate people—would be able to understand taking their money to a Government office and getting a scrip of paper for it, and then, a few months afterwards being able to go to the office and hand in the paper and get their money back with the interest added.

8887. What you suggest is really the issue of bearer securities?—Yes, something like that; a kind of certificate really which may even be transferred or assigned.

8888. In very small denominations?—Yes. If you were to adopt some such system as that, I am certain you would be able to get in each taluk from 10,000 to 20,000 rupees.

8889. Do you think there is scope for the issue of much larger amounts of rupee loans of the present character in India?—Yes. I think I have got some figures here showing how much we have taken back to India.

8890. It is the case, is it not, that India has been re-absorbing rupee paper in recent years?—Yes.

8891. What figure do you think the Government of India could safely count upon as being able to issue year by year?—I do not think I would be able to say that. I think it must first be tried.

8892. I think in recent years they have issued about 2 millions sterling in rupees, have they not?—That is so.

8893. In that case, would you go on increasing the amount experimentally?—Yes. The loans at present raised in India are not raised in a proper way. They are raised through the banks and syndicates, and therefore a large amount of the money that is available does not come in at all.

8894. Would you advise that class of loans being raised in any other way than they are now?—Yes; I would advise that they should be raised through the post offices, or through the co-operative societies, or through the district boards, or through any other agency which is in touch with the classes from whom these loans can be raised.

8895. Let me turn now to another big question: Are you in favour of the establishment of a State bank?—No, I am not in favour of a State bank.

8896. Will you tell me your reasons?—First, there will be the disadvantage of having the notes issued through the State bank. Certainly, the note circula-

tion will decrease once it is handed over to a State bank, because the people will not have quite the same amount of confidence in a State bank note as they now have in the Government currency note; that will affect in its turn the circulation of the rupee, and that will complicate the question. Secondly, all of us believe that the Secretary of State for India and the Government of India are responsible to the Press and to public criticism, and I do not think that the Press and public criticism can in any way have any control over a State bank if it invests its money in the Argentine or in South Africa. Even if the system were introduced of having three Government directors as the old banks had in India, those three Government directors would always be in a minority as against the other directors. That is another reason which, I think, would be against the popularity of a State bank—that the Government would have no real control.

8897. You think the Government control would be insufficient?—It would be insufficient. There may be an objection among the people to entrusting their money to a State bank. I do not think the money would be any safer than where it is now, and the note issue could not be popular because, as I say, bank notes would not be accepted with the same amount of public confidence as the Government currency notes are. You want banks in every village; a greater decentralisation of the banks is what you want.

8898. You think India is too big as a whole for one State bank?—Yes, it is too big. You want money in every village, and I do not think the present banks finance Indian trade or Indian exigencies to the extent that they ought to.

8899. Therefore, you are in favour of more decentralisation, and you are not in favour of centralisation?—That is so. Even the banks as they are, I think, should have more branches in the districts and villages.

8900. Do you think that the Government could do any more than it has done to encourage the opening of new branches by the bank?—No. In India they are now very busy establishing co-operative societies; I think if that work could be done properly, it would after some years prove to be the means of helping almost all classes in the country.

8901. Do I understand that you look rather to the spread of the system of co-operative societies than to the spread of actual banking?—Yes.

8902. That is, if you have the kind of assistance that is needed from the Government?—Yes. I will explain it in this way: We had large deposits in banks until the recent failure of one bank at Madras, and since then people have been investing their money in landed property and in other ways.

8903. Have you studied the banking conditions of Northern India at all?—Only to a very small extent.

8904. Have you formed any opinion whether the Government of India ought to exercise greater control over all the institutions calling themselves banks?—I do consider that they should do so, not only with reference to the so-called banks which are not, properly speaking, banks, but also with reference to money-lenders and all those who place money at the disposal of the public.

8905. You think they ought to exercise such control?—Yes, over either banks or money-lenders.

8906. Now as regards the purchases of silver in London; what have you to say about that?—I think I have stated in my memorandum (paragraph 34, page 629) that I would stop the profits on the rupee coinage being added to the Gold Standard Reserve, and I would keep the profits in bullion so that they could be used for silver purchases.

8907. I do not follow your reasons for that recommendation?—There seems to be a good deal of misapprehension about having a silver branch in the Gold Standard Reserve. There is no necessity for having a silver branch in the Gold Standard Reserve if you have a fund for the purpose of purchasing silver. I think if one were able to point to such a fund as I suggest, that would put an end to all the misunderstanding which there has been of recent years about

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the silver branch. I think some such fund is absolutely necessary for coinage purposes.

8908. At the present time the profits on the rupee coinage go to the Gold Standard Reserve?—That is so.

8909. The object of the Gold Standard Reserve is to maintain the exchange value of the rupee?—Yes.

8910. I think you have expressed the opinion very clearly and definitely in your memorandum that the maintenance of the exchange value of the rupee is of the highest importance to India?—That is so.

8911. In matters of currency and exchange that is the first consideration which the Secretary of State should have in his mind?—Yes.

8912. If you put nothing from the profits of the rupee coinage into the Gold Standard Reserve, how are you to build up that Gold Standard Reserve?—I think the present amount would be sufficient for the maintenance of exchange.

8913. Where would you wish that reserve to be held?—I would wish it to be held in London, mostly in gold, and in securities—a few millions of it in securities, say, because then it earns interest.

8914. What sort of figure would you suggest for the actual gold?—I cannot suggest a figure, but I would say the major portion of it may be held in gold, and the rest of it in securities.

8915. Would you say that 10 millions in gold would be sufficient, or would you prefer 15 millions?—I would consider 10 millions to be sufficient ordinarily.

8916. What leads you to think that 10 millions in gold would be sufficient?—It is simply this, that I would rather like the gold to be earning some interest instead of letting it lie idle. That is the only consideration which makes me say that. These securities can be easily realised in any time of stringency.

8917. You would agree that the first thing to have is security, would you not?—Yes.

8918. To be sure that your fund will be adequate for the purpose for which you have created it?—Yes.

8919. And you would agree with me, would you not, that you must not jeopardise its success in your desire to earn interest?—No.

8920. Since the Gold Standard Reserve has been established there has only been one serious crisis, namely, the one in 1907–8?—Yes.

8921. The amount of gold that was required at that time was more than the 10 millions you have named, was it not?—Yes.

8922. Yet the crisis was not a very severe one, was it?—It was a severe one, and there were some international complications also.

8923. But the centre of international complications was New York and not London?—That is so.

8924. A London witness said to us that the situation would have been much more serious had the storm centre been in London?—I think he would know better than I.

8925. Take the Indian side; you have known much worse famines occur in India than occurred in that year, have you not?—Yes.

8926. It might happen even that a period of war coincided with a period of famine?—Yes.

8927. Bearing in mind that, as you have admitted to me, the first object is security, do you not think you are putting the figure for the reserve rather low?—No.

8928. Having in view all those possible eventualities?—I would only say that I do not look upon the fund in the Gold Standard Reserve as the only means to tide over such a serious crisis.

8929. To what else would you look?—I would look to the gold reserve in the Paper Currency Reserve, to getting gold from the cash balances, and then, if necessary, some loans could be raised.

8930. Of course if the storm centre is in London that would not be propitious for raising loans?—No. I would gather the reserves for that then.

8931. Under such conditions as I have suggested, the balances might be very low?—Yes, they might.

8932. But you would still have the Paper Currency Reserve to draw upon?—I think we cannot go on storing up gold in the expectation of such a great crisis. No figure would be high enough to meet such

a serious crisis as would be caused by a war in India with famines and international complications all occurring at the same time. I do not think any figure would be sufficient to provide for such a crisis.

8933. I do not think they would all arise together; but I do want to suggest to you that there are these various circumstances which, either in combination or separately, might produce a severer crisis than the experience of 1907–8?—That is so.

8934. And that even in 1907–8 you required more than 10 millions of gold?—That was so.

8935. Therefore, perhaps it would be wise before you begin to think about interest, to accumulate in the reserve more of the actual metal than you have suggested?—I do not fix the figure at 10 millions. It may be 10, 12, 13, or 15 millions; it all depends on the state of Indian exchange.

8936. One or two witnesses who have come before us have thought that the strain upon the Gold Standard Reserve could be relieved if the circulation of gold in India could be increased; but I think from your memorandum that you are not in favour of increasing the gold circulation?—No; and I may say that I do not believe it could be increased in any way. I have pointed out in my memorandum some of the places where the gold would go if it were issued.

8937. I think you hold that a very large proportion of the gold which has been taken by India in recent years has not gone into circulation at all?—That is so; it goes into the melting pot in the ways that I have mentioned in my memorandum (Appendix XXVIII., page 624 *et seq.*).

8938. You have pointed out to us in your memorandum that the laws of inheritance tend very strongly to increase the hoarding of gold in the form of jewellery?—Yes, very strongly.

8939. Do you suppose that in a time of crisis much of that hoarded gold which is held in one shape or another would come out?—If it was a personal necessity it would come out.

8940. That is to say, if the pressure of famine forced the people to sell it?—Yes.

8941. Do you think it would come out of the hoards except under those conditions?—It would not come out except under those conditions, because no one parts with his jewels until the worst happens.

8942. Do you regard the gold in circulation or in hoards as a material support for exchange?—No, I would not consider it to be a material support.

8943. As far as exchange needs protection, you could only look——?—To London.

8944. To gold in the control of the Government?—Yes.

8945. In the course of your memorandum you say that recent experience shows that capital is not flowing freely from England to India?—That is the case (see page 620, paragraph 3).

8946. It was, I think, the hope of the Fowler Committee that with the establishment of a stable exchange the flow of capital from this country to India would be very much encouraged?—Yes, it was.

8947. The stable exchange has been attained, has it not?—Yes.

8948. Why do you think, then, that the hopes of the Fowler Committee have not been realised?—I do not know whether I can say much in explanation of it, except that the higher rate of interest elsewhere has been a temptation.

8949. In other words, it is due to the superior attractions of other places?—Yes.

8950. And it is not due to any fault or deficiency on the part of the Indian Government?—No, it is not the fault of the Government of India.

8951. In your memorandum you give figures showing both the imports and the circulation of sovereigns in India; may I ask from what source those figures are derived?—From Mr. Atkinson's published statistics. They are all taken from there.

8952. Do you know at all how he arrives at the number of sovereigns in circulation?—No; I am taking it on trust.

8953. In your opinion, I understand that the sovereign is not a coin which is required as a coin by

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the people of India?—No, it is too large for their ordinary daily transactions, and the larger payments are made in notes.

8954. Would you say that is true of all the districts in India?—I can speak only as far as my knowledge is concerned.

8955. There are considerable differences in the different localities, are there not?—There are differences. But one knows the money that is wanted for the ordinary transactions, and I should rather say that what I have stated would be the case in Bombay and Madras, except perhaps with a few traders in Bombay.

8956. Would you agree that, as far as they can do so, the Government of India should meet the requirements of the public and give them whatever they ask for?—I will not say that the Government of India should be obliged to give them gold.

8957. But if they have gold to supply, and the public ask for it, they should give it?—Certainly, they may give it then.

8958. You would give it?—I would.

8959. In cases where the public is indifferent, what do you think is the wisest course for the Government to pursue?—To pay in silver or in notes.

8960. But not in gold?—Not in gold.

8961. I infer from the answers you have already given me that if they paid out in gold, you do not think that in a crisis that gold would materially support exchange?—It would not materially support exchange.

8962. In regard to another question referred to us, have you any criticism to make of the management of the balances in recent years?—I have pointed out in my memorandum that it is only a temporary phenomenon, and that the balances are not usually heavy with the Government of India. It is all due to temporary causes, such as a series of good seasons and also to unexpended sterling loans.

8963. So you think it is due to abnormal circumstances?—Yes, I do. You cannot expect to have heavy cash balances in the next year and the year after next. I mean in successive years. The Government of India have to finance large transactions, and I would consider that even these cash balances are not a very heavy amount for them. I would leave the cash balances to the Government of India to be used for the necessities that will arise, and I would not lend them to the banks, because that is not going to be useful to the Indian taxpayers; it may be useful to some of the banks, but it is not useful to the country at large if you do that.

8964. Do you mean that when they have a surplus in India beyond their requirements, you would propose that they should leave it in their treasuries until they require it?—They might use it in the reduction of their capital expenditure. That is the only direction in which they can use it.

8965. It is always the case, is it not, that just in the busy trade months of the year a good deal of Indian revenue is collected?—Yes.

8966. And that therefore just at those months, when money is scarce in the money market, the treasuries are rather full?—Yes.

8967. The money which fills the treasuries is money which will be, speaking generally, needed for the expenditure of the year, is it not?—Yes.

8968. So that under those circumstances it cannot be paid out at once for capital expenditure?—It cannot be paid out at once for capital expenditure; but it is no use to lend it to the Presidency Banks, as that will not assist Indians at large. It will perhaps be helping the Presidency Banks to a large extent in their business, but the Presidency Banks do not finance Indian trade as they ought to, or as one would expect them to do. The money might be used in other ways.

8969. Would you develop that a little? Suppose the Government of India did lend out money in the busy season when you have bank rates of 7 per cent. or 8 per cent., and suppose the Government of India lent out enough money to bring the bank rate down to 6 per cent., do you think that the effect of that would not reach further than the white community?—It would reach further, but not so far as I have in view, where the rates prevailing are from 12 per cent. to 20 per cent. or even 24 per cent. I think that is

the rate at which the ordinary Indian business man borrows.

8970. Then your view is that what I may call the cultivator's money market has really no connection with the bank rate?—That is so.

8971. And that the relief of the bank rate would never get down to him?—It would not get down to the 70 or 80 per cent. of the people who are agriculturists. If the money is going to be lent out to these co-operative societies, or to banks which are at the disposal of the people at large, then it would be useful; but I do not know whether the money could be returned back when the Government of India wants the money, if it were lent out to these institutions.

8972. Might it not be filtered down to a considerable extent to those institutions through the Presidency Banks?—No, it does not do so, so far as my experience goes in Madras.

8973. If it is convenient to the Government of India to lend from one source or another, and it can earn some interest by doing so, do you object to the Government lending to the Presidency Banks?—No, if it can be done without inconvenience.

8974. But you do not think a great advantage would ensue to the commonalty?—No.

8975. (*Lord Faber.*) Suppose a bank is able to lend out 100% for only six months in the year, and during the other six months it is not able to lend that 100% out at all; should you think it too much to charge 6 per cent. for the six months, bearing in mind that for the other six months the bank could not lend the money at all at any price?—No, I would not consider it so.

8976. (*Mr. Keynes.*) When you said that the notes would be distrusted if they were taken over by a central bank, were you thinking of notes which were changed in form from the present form?—No, it is not a question of form. I think it would then be only a bank note, and that is how the people would consider it. I am speaking purely from the point of view of the ordinary man in the street; he would not consider it of the same value. A currency note he considers to be a Government note which can be offered at a Government office or treasury, where he knows the officials, and where he knows he can change the note for the 5 rupees, or the 10 rupees, that it is worth. On the other hand, if it is a bank note, it is a question of going to the bank and getting it cashed. That will affect what I spoke about as the popularity of the note, and therefore a bank note will not circulate so much as a currency note circulates at present.

8977. If the guarantee of the Government is retained, and there is no change in the form of the note, and the note issue is governed by certain rules laid down by Act of Parliament, what would be the effect of the change, do you think?—I do not think the notes would circulate freely.

8978. Even if the Government guarantee was maintained?—That guarantee is not of much use once this law is passed. People who hold currency notes know that they can hand them over and get payment, but I do not think any legislation will make the thing clearer to them, or do away with the feeling of distrust and the want of confidence. They will throw the bank notes on the market.

8979. Do you think so, even if the guarantee of the Government were retained?—It is not a question of the guarantee. At present I do not think that everyone is conscious that all these notes bear the guarantee of the Government. It is not that that makes them use them. It is the feeling that these notes are money. These are cases in which currency notes have been hoarded to the amount altogether of 1 crore or 2 crores. A man looks upon them as money. A bank note will not have the same value in their eyes.

8980. The currency offices of which you speak are very few in India, are they not?—There are a certain number of them.

8981. The people cannot rely upon being able always to cash these notes, therefore?—That is so,

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but the feeling is that at any moment a man can take it to the office and have it cashed.

8982. By far the vast majority of the people of India have never seen a head currency office?—I think most of the people do see the offices, because they go to them to pay in the revenue.

8983. The head offices are only eight in India?—I am talking of the district treasuries, where currency notes can be changed.

8984. At those places they do not necessarily cash them?—They do cash them.

8985. Not on all occasions?—On every occasion I know of.

8986. How many of those offices are there?—I have no means of telling you how many there are in the districts. I am talking of treasuries and sub-treasuries.

8987. We have received evidence that there is no great freedom of exchange at these offices. Notes may be received in payment of taxes, but they are not easily or habitually changed in the sub-treasuries. We have received evidence that what you have been saying, that these notes are cashed at these sub-treasuries for the public, is not the case?—That may be so, but any note that is taken to a treasury is cashed; the money is paid over the counter.

8988. (Mr. Gillan.) You cannot depend on that?—No.

8989. It is merely if it happens to be convenient?—Yes.

8990. If they have got rupees there you can get the rupees for your notes, but if they have not got the rupees you have got no claim against them?—That is so; but when they cash your note, nobody explains that it is only a special occasion, and that the next time you will not get it. It is looked upon as a place where you can change notes.

8991. (Mr. Keynes.) I think we were told in evidence that at the sub-treasuries notes were never cashed for the public?—Notes are cashed; I have taken the notes there and got them cashed.

8992. Sometimes?—Yes.

8993. Are you only saying that it is an idea abroad that these notes are cashed at the treasuries, or do you mean that they can change a note at any moment they like?—The feeling that underlies the large circulation of these notes is that they are Government notes. Once the note circulation gets into the hands of the banks, the people will have no more confidence in it.

8994. I think it is surprising that the people should have that feeling of confidence in the currency notes, when, as a matter of fact, they can only occasionally change them at the offices that you speak of?—As long as the Government issues the notes and circulates them, the people will take them for their value.

8995. Do not those occasions—we have had evidence that they are frequent—on which they are unable to cash them rather shake their confidence in the notes?—It does not matter, as the man can go to a shroff and get a note cashed. He knows he can get it cashed anywhere, and that is why there is a feeling of confidence.

8996. I am suggesting that this confidence does not really depend upon their being able to take it to the currency office, but on the general position which the notes have attained?—I think you attach too much importance to their being changed at the Indian currency offices; but I would say there is a feeling in the mind of every man who has got a note in his hand that he can immediately turn it into cash, as the Government is responsible for its payment immediately whenever he wants the money. That is the feeling which has brought about the large circulation of the currency notes, and Indians will not have the same confidence in a bank circulating its own notes. It may be curious and it may be surprising, but that is the feeling, which one cannot get rid of.

8997. You understand that I am imagining a case in which the notes are managed, as one may say, by the bank, but the Government guarantee remains, and there are certain rules regulating the issue of the notes, which are not changed in form, which are encashable at more places than they are now, but which are managed by the bank instead of by the Government—

that is the whole amount of the change. I am not supposing a case in which the present currency notes are abolished and are replaced by what you call a bank note?—I quite understand that, and any other educated man can understand it, but I am talking from the standpoint of a large number of illiterate people in India. I do not know who would undertake to go to them and explain to them that the new note is the same as the old note, and that there is no difference in it.

8998. But if there were no difference, would it not be easy?—It may be curious, but if it is a bank note and not a currency note of the Government, that is enough to spoil it and to lessen its circulation. That is how I will put it, though it may be strange.

8999. (Sir Shapurji Broacha.) Do you not think hoarding is an instinct with us in India? For the reasons you have stated in your memorandum you know it is almost inherited?—I will not say it is inherited, but all these conditions and circumstances must tend to increase it.

9000. Would you not agree with me that it is an instinct which we have inherited, owing to the unsatisfactory character of the Governments that we have had in India before?—I will not say that. Assuming education advances, and that many Indians hold very responsible appointments, and that most of them know exactly what and how necessary investments are, even under all those conditions I do not think hoarding will lessen, because of the reasons which I have mentioned.

9001. Of course we are getting rid of the hoarding gradually, and we are bringing out the money, as we know; still it is almost an inherited instinct which we are getting rid of by education?—No, excuse me, I will not say it is an instinct.

9002. In 10 years we have imported 70 millions in bullion and 57 millions in sovereigns, that is 127 millions sterling, which is equal to 190 crores of gold, and the only visible sign of that are the 25 crores left in the currency. Would such a thing happen in any other country?—I cannot say what would happen in other countries. I can only say that we can imagine that it would not happen in any other country, but we know exactly what happens in India.

9003. In other countries the sovereigns are either in the banks or they are preserved, as it were, for contingencies. For instance, if England had imported 10 millions sterling, certainly 7 millions would have been in the Bank of England, or even 8 or 9 millions; whereas out of the 190 crores which we have imported into India, we only see visible signs in the possession of the Government of some 25 crores. As you know, more than any other country, we keep, either for ornaments or for hoarding, gold out of circulation; do you not admit that?—It is true.

9004. If there were an alarm of war, or anything like that, instead of that gold coming out of the hoards the people would ask for more; they would deliver their rupees and currency notes and ask for gold, would they not?—Yes.

9005. So that a gold circulation pushed by the Government under the idea that ultimately it would help the par of exchange is a mistaken notion?—It is mistaken; and that is what I said previously.

9006. Now about currency notes; we have been accustomed to currency notes for the last 62 years, have we not?—Yes.

9007. If we were to make any change of policy in respect of them through a State bank, or anything like that, even though we were to guarantee them, our people would be suspicious?—Yes, they would be suspicious.

9008. And they would think that the State wanted to shirk its responsibility on to the bank?—Yes.

9009. So, instead of increasing the note circulation, the note circulation would go back?—Yes.

9010. Whatever may happen 50 years hence or 25 years hence, the first effect of a State bank circulating notes, in whatever form you like, would be to decrease the circulation of the notes, would it not?—Yes.

9011. So a State bank would not help the circulation of the notes under any circumstances?—No, it would not.

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[Continued.]

9012. On the contrary, it would put the circulation back?—Yes.

9013. You told the Chairman that you think India is too large for a State bank?—Yes, I do think so.

9014. Now about the wealth reaching the cultivators. We have some co-operative banks; for instance, there is a large co-operative bank in Bombay; and through them the money goes to the cultivators by means of the punchayats, or village communities; do you admit that?—Yes.

9015. The co-operative bank in Bombay registers the assets of the village, and whatever loans are taken for the moving of the crops by the village, the amount is guaranteed by the whole syndicate of the village; that is a greater facility than any State bank would give, is it not?—Yes. I would have that, not only for agriculture but for the other classes. I would like to see co-operative banks for weavers and for each class of the community in order to help that community in the particular way they want with loans and advances. They would be much more useful than any State bank could be.

9016. It would go farther down into the middle and the lower classes than the State bank would?—Yes; and they are the classes who really want the money and cannot get it cheap.

9017. If a State bank were formed with its manager and directors at Calcutta, you know that at present the directors of the Bank of Bengal are all Europeans, though the directors of the Bank of Bombay are half natives and half Europeans; with such a management for the State bank as they have in the Bank of Bengal, the State bank would be of very little service in your districts, or in any other part of India, as it would not reach the cultivating classes?—That is so.

9018. Nor the middlemen between the cultivating classes and the banks?—That is so. All that the middlemen do is they take the money at a lower rate of interest and they lend it at a high rate of interest.

9019. So that a State bank would be doing really less service than the three Presidency Banks are doing now?—Certainly. There has been a discussion in the papers, and in Parliament, in which very much has been said about the Indian view and Indian opinion. If by the word "Indian" is meant presidents of the Chambers of Commerce and the European managers of the banks, or an Indian who is a director of half a dozen banks, they would have used a very proper term; but if what is meant by the word "Indian" is the large class of agriculturists and artisans, then if it is said that the views which have been published are the views which Indians have, I think they are taking the name of the Indian in vain.

The witness withdrew.

